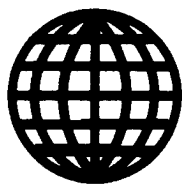


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8 SEPTEMBER 1992



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# ***JPRS Report***

# **China**

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# China

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### Meeting Proposes Filing Direct Reports on Major Crimes

HK0309035492 Beijing RENMIN RIBAO in Chinese  
14 Aug 92 p 3

[By reporter Mao Lei (3029 4320): "A National Propaganda Work Conference of Procuratorial Organs Points Out Directly Reporting on Major Cases Is Necessary To Strengthen Democracy and the Legal System"]

[Text] Beijing, 13 Aug (RENMIN RIBAO)—At a national propaganda work meeting of procuratorial organs today, a comrade in charge of Supreme People's Procuratorate press reports said that apart from strengthening the coverage of procuratorial organs protecting economic construction, the media should also promptly report on the investigation and handling of cases.

This comrade in charge added that there is a need to give direct publicity to major cases, but this should not proceed from the angle of exposing the dark side of society but from explaining how procuratorial organs investigate and handle cases to propagate socialist democracy and the legal system and praise the spirit and exemplary role of procuratorial organs and their policemen.

According to statistics, in the last four years, newspapers and magazines of procuratorial organs at the national, provincial, prefectural, and city levels have published 447,800 news items and television broadcasting stations at these levels have broadcast 24,600 items of television news.

Since 1988, procuratorial organs in various localities have set up the press spokesman system, and through the media they have regularly and irregularly reported to various social circles and the masses on procuratorial work and promptly announced the procuratorial organs' work. In the last three years, procuratorial organs throughout the country have held more than 3,200 news briefings to announce in a timely manner the main aspects of procuratorial work and the major cases investigated and handled according to law. This has received widespread concern and good appraisal from people in various social circles.

This reporter learned that procuratorial organs at all levels have in recent years paid close attention to using television—a modernized means of publicity which has a wide coverage, transmits information fast, and is to the masses' liking. In the course of videotaping a large amount of television news, they created more than 2,000 special films on procuratorial subjects and more than 90 television series, broadcast by central, provincial, city, and prefectural television stations. The television series "Lawsuit" and "Prosecutor of a Mountain City" were awarded "Outstanding Prizes for the First National Television Series on Special Subjects and Special Television Programs" by the Chinese Television Art Commission.

This comrade in charge of the Supreme People's Procuratorate revealed to this reporter that the supreme procuratorate is ready to set up a national procuratorial video center soon to strengthen guidance and coordination in video propaganda work in procuratorial departments, to change the present situation in which procuratorial organs' video creations and manufacturing are excessively decentralized, their subjects are similar, the investment is too much, the results are bad, and the overall techniques are not high.

### Fight Against Corruption, Bribery Viewed

HK0109112192 Beijing XINHUA Domestic Service  
in Chinese 0109 GMT 29 Aug 92

[By reporter Chen Yan (7115 7159)]

[Text] Beijing, 29 Aug (XINHUA)—This reporter learned from the Supreme People's Procuratorate recently that new progress has been made in the struggle against corruption and bribery. From January to July of this year, procuratorial organs across the country handled over 48,000 corruption and bribery cases, and filed for the investigation of 7,600 cases, each involving over 10,000 yuan. The number of cases accepted and handled was comparable to the same period last year, and the number of cases involving over 10,000 yuan increased by 13.3 percent.

Of these cases, 17 involved an amount between 500,000 and 1 million yuan, and 13 involved an amount exceeding 1 million yuan. Cases against 457 county-level and departmental cadres were filed for investigation; of these cadres, 12 were at the sectional and bureau levels. By handling these cases, losses of nearly 243 million yuan have been retrieved for the state and collectives.

The relevant person in charge of the Supreme People's Procuratorate told this reporter that since the beginning of the year, procuratorial organs at all levels have insisted on serving economic development, directing their anticorruption and antibribery campaigns toward big and serious cases, and those corruption and bribe-taking cases among personnel of party and government organs who "exchange rights for money." The organs cracked a number of very big cases involving great adverse influence and huge bribes. For example: Xu Xiaochun, manager of Guangzhou's Kanghui Development and Trade Company, accepted a bribe of 3.5 million yuan; Li Jin, cadre of Anhui's Power Bureau, accepted a bribe of 942,000 yuan; Zhao Shuang, accountant of the Tianhe Subbranch of the Zhujiang Branch of the Chinese People's Bank, deposited a bribe of 2 million yuan, which he procured by internal and external collaborations; and Pang Qinghai, former deputy head of the public security bureau of Jilin's Guo County, accepted a bribe of over 200,000 yuan. These cases have produced very good social, economic, and legal results.

In addition, this reporter was told that in answer to the major concerns expressed by the masses about trades,

professions, and departments—where there are comparatively many problems—procuratorial organs at all levels have also launched the anticorruption and antibribery struggle. Jiangsu Province alone has sent over 6,800 personnel to conduct extensive investigations in over 2,000 enterprises suffering losses. They have unearthed and handled more than 200 serious corruption and bribery cases, retrieved an economic loss of over 28 million yuan for the enterprises, and curbed or reversed the losses of over 300 enterprises.

This person in charge said: The fact that the pace of economic development is being stepped up and reform and opening up are being augmented has set a new and higher demand on the struggle against corruption and bribery. Therefore, procuratorial organs at all levels pay attention to organizing policemen to conscientiously study economic knowledge and keep themselves informed of the new situation and new problems in the economic field so as to correctly recognize crime. On the other hand, they are alert to properly handle relations between cracking down on crime and serving the economy. They must not handle a case without considering an enterprise's production and operations, or only stress service without caring for the case. For example, in a case in which an exemplary laborer and outstanding entrepreneur was bribed, Fujian's procuratorial organ released the man on bail so that he could continue working and using his skill in his former post. This practice was supported by the leaders, staff, and workers of his former unit, as it served to crack down on crime while not affecting production.

To better serve reform and opening up and economic development, procuratorial organs at all levels have now made preventing corruption and bribery important objectives. The Guangdong Provincial People's Procuratorate and the Shanghai Municipal People's Procuratorate have set up, ahead of others, organizations for the prevention of corruption and bribery. In so doing they have, while strengthening crime reporting and investigation, included the prevention of crime in the general preparations for the overall control of public security and mobilized the masses to jointly supervise social order and prevent crime.

### Seminar on Party-Building in Coastal Economic Zones

SK0409012192 Shenyang Liaoning People's Radio  
Network in Mandarin 1030 GMT 2 Sep 92

[Text] Cosponsored by the organizational department and the propaganda department under the party Central Committee, the party building research department under the Central Party School, and party committees of Guangzhou, Tianjin, Dalian development zones, the national seminar on party building of coastal economic and technological development zones, with the participation of the 13 coastal open zones in the country, opened at the Dalian Development Zone on 2 September. In the course of firmly carrying out development and construction and developing the export-oriented economy, the various coastal development zones in the country have actually strengthened party building, ensured the implementation of the principles with regard to reform and opening up, and created, in practice, the fresh experience of simultaneously grasping political and ideological work and economic construction.

The seminar is aimed at discussing the major questions of how development zones should strengthen party building, strengthen and improve party leadership, and successfully gear party building to economic construction as well as reform and opening up, in the course of carrying out reform and opening up at present. Leaders and party building specialists and scholars of various coastal developments zones which were participating in the seminar have handed 27 theses on party building work over to the seminar. Participants in the seminar have been interested in the theses handed over by the Dalian Economic and Technological Development Zone, entitled "On Party Building of Foreign-Funded Enterprises Under the New Situation," "On the Problems Facing Foreign-Funded Enterprises in Building Party Organization and the Countermeasures For These Problems," "On the Contradictions and Party Work of Foreign-Funded Enterprises," and "Striving to Create a Relaxed External Environment to Ensure the Smooth Progress of Development and Construction."

## NATIONAL AFFAIRS, POLICY

### **Economist Calls for Forsaking Product Economy**

*HK2008063892 Beijing JINGJI CANKAO BAO  
in Chinese 17 Jun 92 p 4*

[Article by Wang Zhuo (3769 3820), council member of Society for Research on Restructuring Economic System of China: "A Breakthrough Should Be Made in Reform by Storming the Last Fortress of Product Economy"]

#### **[Text] 1. The 1990's Will See a Turning Point in China's Reform**

The 1990's will be the most crucial period of China's reform—a turning point in reform will be seen. This is determined by the development trend of China's reform. At present, a basic characteristic of the situation in China's reform is that it has already safely gone through the risky stage and is entering a stable period. The basic hallmarks of this present period are:

- 1) Reform has stabilized rural areas as a major sector of the economy. As the peasants have gained real benefits from reform, they are not afraid of it, but are worried about suspension of reform and of backtracking. Stability in rural areas is the cornerstone of social stability in China.
- 2) China's reform has already withstood economic risk and gone through the "stage of price reform," as price control over about 80 percent of the production means and about 90 percent of the means of subsistence has been lifted. The costs of price reform have mainly been compensated for with the "enlarged" portion of the "cake" of national income as a result of economic growth. The people's livelihood has been substantially improved in the wake of reform.
- 3) China's reform has also withstood the political risk and the serious interference by bourgeois liberalization. As a consequence, the past few years saw an excellent situation characterized by political and social stability.

The success of China's reform in stabilizing rural areas and withstanding economic and political risks is mainly due to three factors: First, as far as the political orientation is concerned, we have always upheld the four cardinal principles; second, as far as the goal of reform is concerned, we have always upheld the principle that reform is to readjust the production relations, to develop the productive forces, and to really benefit the people; and third, as far as the guiding ideology for reform is concerned, we have always upheld the principle of emancipating the mind, seeking truth from facts, and steady progress through experiments. Now we have achieved initial success in rural reform, enterprise reform, reform of the commodity circulation sector, and price reform, as well as the growth of market and the making of the market mechanism. Reform has smashed a series of strongholds in the structure of product economy.

In the 1990's, reform is to make a breakthrough by storming the last fortress of the product economy. The main objects of the reform are government "organs," while the main tasks of the reform are to transform the government's role and the government behavioral mechanism in the structure of product economy, and to develop a macroeconomic regulation mechanism of the commodity economy. This will be a tough battle in China's reform. Therefore, the 1990's will see a turning point in reform. We must never miss this opportunity.

#### **2. Development of the Idea on China's Reform in the Past Three Years**

Over the past three years, China has undergone a stage of improving the economic environment and rectifying the economic order. This is a special stage, the main objective of which is to stabilize the economy. Reform has stagnated in certain aspects while making new progress in others during this period. Our practice in the past three years of economic improvement and rectification has fully proved that China's reform has become an irreversible trend.

What deserves a review is the development of the idea on China's reform over the past three years of economic improvement and rectification. During this period China was faced with two major difficulties, namely, the financial shortage on the part of the central authorities and the sluggish market. And to ease the difficult situation has been the primary concern in the development of the idea of reform.

The central authorities' financial shortage and the sustained deficits in successive years led to two judgments. First, as far as the ratio between the central and local financial revenues is concerned, the proportion of the central financial revenue has excessively decreased. This judgment has resulted in an idea on the reform of the financial structure: To pool financial resources, one needs to negate the successful experience of localities in the reform of the financial structure; introduce a revenue-sharing system; make state-owned enterprises practice the system which requires payment of tax plus a percentage of profits to the state and payment of tax before loan repayment; and give up the experience in the reform that has introduced the comprehensive contract system for both input and output among enterprises. Second, the proportion of national financial revenue to the national income has been reduced too much. The conclusion drawn from this judgment is that, as far as the distribution of the national income is concerned, excessive preference has been given to personal income. In this connection, a series of reformatory measures have been implemented to increase the burden on the public. Here the question is whether the judgment that excessive preference has given to personal income in regard to distribution of national income is correct and credible and what criteria this judgment is based on. In 1991, the rate of accumulation of the income set aside from the distributed national income was as high as 34.5 percent. Therefore, it is not true that the personal consumption

has gone beyond what the consumers can afford, but the accumulation rate has exceeded the security line. Of course, after all, only a very small number of people have had their income increased drastically or even become upstarts, and their case cannot be cited as a criterion for formulation of the distribution policy and the guiding ideology of reform.

Since demand has been retrenched excessively and too drastically during the economic improvement and rectification process, it has brought about a sluggish market. However, the measures that have been taken to cope with the sluggish market have stressed increasing enterprises' circulating funds without appropriately increasing investment. This inappropriate and faulty macroeconomic regulation by the government has landed state-owned large and medium-sized enterprises in dire straits to suffer rapid decline in production, decreased economic results, and increased losses. However, in evaluating the phenomenon of sluggish phenomenon, people have mistaken the effect for the cause. They have blamed enterprises for the malfunctioning of the great economic cycle, which was actually due to inappropriate and faulty macroeconomic regulations on the part of the government. Thus a guiding ideology for reform with the theme of transformation of the enterprise management mechanism has been put forth, and all people throughout the country have unanimously thought of the lagging of the transformation of the enterprise management system as the major problem dominating the overall economic situation. They simply believe that the transformation of the enterprise management mechanism is a "versatile solution" to all contradictions.

The guiding ideology for reform that has taken shape in the past three years of economic improvement and rectification is a product of the special case of economic improvement and rectification. Now that the economic improvement and rectification process has ended, it is time for us to make a change in this guiding ideology for reform.

### 3. There Must Be a New Guiding Ideology for Reform in the 1990's

In the 1990's, China's reform must take the transformation of the macroeconomic regulation mechanism rather than the transformation of the enterprise management mechanism as a key link. Therefore, we need to direct the reform to storm the last fortress of the product economy structure, and focus our attention on the transformation of government functional and behavioral mechanisms. The government behavioral mechanism means the macroeconomic regulation mechanism. So the transformation of the macroeconomic regulation mechanism means to change the macroeconomic regulation mechanism that suits the product economy into one which suits the commodity economy. This is the new guiding ideology for China's reform in the 1990's. It is based on the following analysis that I present this new guiding ideology for reform:

1) Further transforming the enterprise management mechanism is necessary. But we cannot totally attribute the sluggish market as faced by enterprises in the economic improvement and rectification process to the lagging of the transformation of the enterprise management mechanism. The vast majority of enterprises, except those dealing in exports, have been suffering from decreased economic results. The main cause for this is the imbalance in the market demand and structure.

2) The imbalance of market demand and structure shows itself in three forms: first, in the form of an overinflated market; second, in the form of a market with over slackened demand; and third, in the form of a market characterized by imbalance of supply and demand. It is hard to solve the problem of sluggish market, no matter how the enterprise management mechanism is to be transformed, even if the capitalist enterprise management mechanism is introduced.

3) The imbalance of market supply and demand is merely the superficial phenomenon, its root cause lies in the faulty or inappropriate macroeconomic regulation on the part of the government. The faulty or inappropriate macroeconomic regulation by the government is in turn due to the lagging of the transformation of the government's macroeconomic regulation mechanism and the failure to switch in good time from the macroeconomic regulation mechanism of the product economic structure to that of the commodity economic structure. The function of the macroeconomic regulation mechanism is to counterbalance any faults by the government in decision making and operation, or to counter the imbalance stemming from the planned economy.

4) The lagging of the transformation of the government behavioral mechanism is displayed in four aspects: first, the lagging of the conceptual change—we still have not got rid of the conventions of the product economy; second, the lagging of the reform of the macroeconomic structure—we still have not broken away from the macroeconomic structure of the product economy, although this structure has already been smashed; third, the lagging of the transformation of the macroeconomic regulation mechanism—this transformation is still at the stage where a new structure has not been established to replace the old one; fourth, the lagging of the transformation of the functions of government institutions—many government organs are still taking direct intervention in enterprises' operation as their duty. Of these four aspects, two are major aspects, namely, the lagging of the transformation of the functions of government institutions and the lagging of the transformation of the macroeconomic regulation mechanism. The lagging of the transformation of the macroeconomic regulation mechanism, which is still being overlooked by many people, is mainly displayed in two forms. First, the product economic structure as a "dead cage" does not fit the commodity economy as a "big, live roc [huo da peng 3172 1129 7720, meaning that the roc can spread its wings and fly far and high]." The so-called "dead cage" means the combination of investment scale, credit scale,

and the quotas of issued bonds and stocks. As long as the "dead cage" is not smashed, the growth rate cannot go up. But if the "dead cage" is broken without being replaced by a new macroeconomic regulation mechanism, inflation will be inevitable. Therefore, until now we still cannot break away from two odd cycles: The first is the reform odd cycle—"once the restrictions are lifted, the economy will be invigorated; once the economy is invigorated, there will be economic disorder; once there is economic disorder, one will resort to centralization; and once one resorts to centralization, the economy will stagnate." The second is the development odd cycle—"imbalance due to inflation—readjustment by retrenchment—imbalance due to inflation again—readjustment by retrenchment again." These two odd cycles are neither the natural products of the socialist system, nor the natural products of the reform process. The root cause for them lies in the lagging of the reform of the macroeconomic structure, and the way out is to speed up the reform of the macroeconomic structure.

5) The root cause for the lagging of the reform of the macroeconomic structure lies in the concepts of the product economy. To carry on the reform we need to do away with the "leftist" concepts of the product economy, and the elimination of the product economy concepts prevailing among some centralized administrative departments in charge of macroeconomic regulation under the State Council should be stressed.

#### **4. Policy To Make a Breakthrough in Storming the Last Fortress of the Product Economy**

To make a breakthrough in the last fortress of the product economy is a tough battle to fight. Therefore we must select a right policy.

The first policy is a dilatory policy. By this policy, we are to divert people's attention from the reform to the transformation of the enterprise operational mechanism, while putting off the major tasks of reforming the macroeconomic structure and transforming the government behavioral mechanism. This dilatory policy will make us miss the good opportunity for reform, and it will neither help us solve the deep-rooted contradictions in the economic life in this country.

The second policy is to carry out the reform from the higher to lower levels—first transforming the government functions of the comprehensive administrative departments and competent operational departments of the State Council, and then launching a reform of the macroeconomic structure from the higher to lower levels, with a view to transforming the macroeconomic regulation mechanism. The general principle of reform is to practice a system of exercise of power by localities under centralized leadership, and to implement a system of macroeconomic regulation for different levels. Meanwhile, the "solid cage" which plays the role of macroeconomic regulation of the aggregate supply and demand is to be transformed into a "flexible cage," a macroeconomic structure with different levels to keep a floating

balance of supply and demand on their own will be practiced, and the main form of this system is the macroeconomic contract system with different levels assuming responsibility for their own operation. Specific reformatory measures can be worked out in light of Guangdong's experience.

The third policy is to carry out the reform from the lower to higher levels. By this policy, more than 10 provinces (cities) along the coast and the rivers are to be allowed to practice the "special policies and flexible measures" that the CPC Central Committee and the State Council granted to Guangdong Province by Document No. 50, issued in July 1979. The main points are as follows:

1) The planning structure will mainly be operated at the provincial (city) level. The production structure within the jurisdiction of a province (city) will be regulated by the province (city) on its own. Provinces (cities) are to develop by themselves trades that are short of resources; such as energy, communications and transportation, and telecommunications, and to curtail other trades that have surplus productivity on their own. Any large-sized projects that are subject to unified nationwide regulation will be submitted to the State Council for examination and approval.

2) With regard to financial revenue, a contract system of progressive net financial return [di zeng bao gan jing shang jiao 6677 1073 0545 1626 0403 0006 0074] to the central financial authorities by provinces (cities) will be practiced. The central financial authorities will no longer be obliged to appropriate funds for local investments. In other words, we are to change the system of centralized financial management of revenue and expenditure, as well as the system of centralized financial appropriation. This is a solution to the financial difficulties at the central level.

3) With regard to the bank credit system, the head office of the People's Bank of China, as a superior body, is to exercise separate control over the debit balance [cun cha 1317 1567] and credit balance [dai cha 6313 1567] of subordinate banks at the provincial (city) level, and the latter will be responsible for maintaining a credit balance on their own. At the same time, the head office of the People's Bank of China is entitled to adjust the rate of deposit reserves as a means to regulate money supply in the country.

4) With regard to the foreign trade and foreign exchange system, provinces (cities) are to assume full responsibility for profits and deficits derived from foreign trade and exports; and a system of foreign exchange earnings shared between the local and central authorities will be introduced. Provinces (cities) are to assume full responsibility for the allocation of local foreign exchange earnings, and to pay back loans in foreign exchange they have secured.

5) The power to adjust or to lift restrictions on the prices of products of local enterprises is to be delegated to provincial (city) authorities.



The objective of the special policies and special systems granted to Guangdong by the CPC Central Committee and the State Council is to first reform the macroeconomic structure of the product economy as a part of the relations between the central authorities and localities, and to introduce a macroeconomic structure which suits the development of the commodity economy, thus to create a general environment in terms of policy and structure for the vigorous development of the commodity economy. The growth of the socialist commodity economy can add vitality and vigor to the socialist economy, benefit the people, and benefit both the central authorities and localities. In the final analysis, reform and opening up has given play to the superiority of the socialist system, and increased socialism's appeal and its role as a cohesive force. This in itself serves as a great wall of steel to resist "peaceful evolution." When the state granted special policies and systems to Guangdong years ago, these "special" things meant to conduct an experiment in Guangdong, and the purpose of experiment was to apply them to other parts of the country if they proved to be successful. In the late 1970's, the state entrusted to Guangdong the mission of serving as the pioneer in the reform and opening up of China. In early 1992, Comrade Deng Xiaoping visited the south and confirmed that "Guangdong is the locomotive of economic development in all of China." This remark is in fact a positive appraisal of Guangdong's experience in reform and opening up. The Guangdong experience is something created by the central authorities, and the central authorities are fully justified to popularize their successful experience to other parts of the country within a broader scope.

### Impact of Price Reform in 1991 Reported

92CE0619A Beijing ZHONGGUO WUJIA [PRICES IN CHINA] in Chinese No 6, 17 Jun 92 pp 23-25

[Article by Ren Caifang of General Office for Urban Price Readjustment under State Statistics Bureau: "Price Reform's Impact on People's Livelihood in 1991"]

[Text] Fairly large strides were made in price reform during 1991 when the entire macroeconomic situation was relaxed. The state had smoothly developed various projects to readjust prices of marketable grain, cooking oil and others, and fulfilled the task to control the retail price index. Meanwhile, the average household income continued to grow. Residents' living standards and consumption level gradually increased, and the consumption structure gradually became rational. Consumer mentality became more mature, and consumer behavior became fairly normal.

#### 1. Stabilized Market Prices, Increased Household Income, and Higher Living Standards

In 1991 prices were readjusted on a relatively large scale. The state successfully increased the prices of grain and cooking oil which were closely linked with the people's life by 66.7 percent and 159 percent respectively. This

raised the retail price index by 2.2 percent. Because the large-scale price increases of grain and oil-bearing crops raised the prices of foods closely related with such crops, it caused the retail prices of food to rise compared with the previous year, and become the major factor pushing up retail commodity prices on the market. The large-scale price increases of grain and cooking oil affected the life of rural and urban residents. The state provided each worker and office staff a monthly subsidy of six yuan, thus offsetting the higher living costs to a certain extent. The average per-capita net income for urban residents in 1991 was 1,570 yuan, up 13.2 percent over 1990, or a real growth of 7.7 percent if price increases are factored in. The rate of growth of urban residents real income was about the same as the 7 percent growth rate of the gross national product for the year. The average per-capita net income for rural residents was 710 yuan, up 3.5 percent, or a real growth of 2 percent, after cost of living increases are factored in. We arrived at this figure by considering the fact that such net income dropped by 1.8 percent in 1989, but rose by 1.8 percent in 1990. However, we should realize that the gap between the income of urban residents and those of rural residents continued to widen, and the comparative advantage of rural residents had dropped. The per-capita income of rural residents used for living expenses was 676.4 yuan in 1991, up 2.4 percent over 1990, or 10.8 percent lower than that of their urban counterparts. The contrast factor of the incomes of urban and rural residents dropped to 1:0.43 from 1:0.48 in 1990, and the difference between the incomes of urban residents and rural residents increased to 893.6 yuan from 726.5 yuan in 1990. The gap between the incomes of urban residents and rural residents was further increased, and national income figures continued to show that rural residents were in an unfavorable position.

With the increased income, residents' living standards continued to improve. The annual per-capita living expenses for urban residents in 1991 averaged 1,454 yuan, up 13.7 percent over 1990. If price increases are deducted, the consumption level saw an actual growth of 8.2 percent, exceeding the rate of growth of the portion of the income used as living expenses. This indicated that urban residents' buying power was restored to a relatively appropriate level, and consumption expanded. Meanwhile, the consumption structure of households gradually become rational with the rising of the consumption level. In food consumption, they gradually bought more high-quality and nutritious nonstaple food instead of mainly buying staple food. Per-capita expenses on food totaled 782.5 yuan in 1991, up 12.8 percent over 1990; and a total of 469.37 yuan was spent on nonstaple food, which accounted for 60 percent of the total expenses on food. While the state increased the selling prices of grain and cooking oil on a large scale, the percentage of the amount of money spent on food by city and town residents continued to drop. The Engle's coefficient dropped to 53.8 from 54.2 percent in 1990. The quality of residents' living standards improved. As for clothing, people tended to buy expensive ready-made

and fashionable clothes with more varieties that were suited to individual tastes. They paid more attention to styles and the quality of materials. The sales of clothes made of woolen or synthetic fiber fabrics were up 23.5 percent and 18.6 percent respectively, and the sales of synthetic fiber and woolen fabrics rose by 4.8 percent and 7.7 percent respectively. The per-capita expenditure of urban residents on clothing during 1991 was 199.64 yuan, an increase of 16.8 percent over 1990. The proportion of the amount of money spent on clothing in the living expenses rose to 13.7 percent from 13.4 percent in 1990. After the popularization of high-grade durable consumer goods such as refrigerators and washing machines, people were more and more interested in buying goods that they enjoyed. Consumer goods have gone from being practical to luxurious. The average per-capita expense of urban residents on gold or silver jewelry in 1991 was 11.6 yuan, an increase of nearly 50 percent over 1990, and that for cosmetics amounted to 6.1 yuan, an increase of nearly 40 percent. At the end of 1991, there were 185.5 bicycles, 2.3 motor vehicles, 68.4 color television sets, 21.3 cameras, nine medium or high-grade musical instruments, 0.7 air conditioners and 35.6 stereo tape recorders per 100 urban households. Due to price increases for water, transportation, postal services, electricity, tuition and miscellaneous fees, the per-capita expense by residents for service items was rising. In 1991, urban residents paid an average of 159 yuan on a per-capita basis for service items, an increase of 24.1 percent over 1990. Its share in the total living expenses rose to 10.9 percent from 10 percent in 1990. Moreover, with reform of the housing system and improvement of living conditions, residents spent much more money on housing; and housing became a new and major realm for money spending. The per-capita expenditure of residents on housing including rent, water, electricity, gas, fuel and construction materials totaled 106.09 yuan in 1991, up 31.7 percent over 1990.

## **2. Residents at Different Income Levels Act Differently in Coping With Price Changes**

The rise or fall of market prices undoubtedly affect the residents living standards. However, its effect on different income levels are different. According to a survey, an urban family with the highest income spent an average of 110.31 yuan more in 1991 on a per-capita basis to offset price increases, accounting for 4.1 percent of its income used as living expenses; households with a high income spent an average of 91.37 yuan more, accounting for 4.6 percent of its income used as living expenses; households with a medium-level income spent an average of 69.96 yuan more, accounting for 4.9 percent of its income used as living expenses; and households with the lowest income spent an average of 45.52 yuan more, accounting for 5.1 percent of its income used as living expenses. Among families with the lowest income, each family with material difficulties paid an average of 42.69 yuan more per year to offset price increases, accounting for 5.3 percent of its income used as living expenses. In the total living expenses, the

proportion of the extra money needed by families with incomes from the highest to the lowest to offset price increases tended to become higher step by step. This shows that price increases affected families with lower incomes more than those with higher incomes and that the difference between the living standards of families with lower incomes and those with higher incomes was becoming greater and greater. Another survey showed that due to price increases for grain and cooking oil, the average urban worker or office staff paid an average of 4.26 yuan more on a per-capita basis in May for the purchase of grain and cooking oil compared with the April figure prior to the price increases, accounting for 5 percent of the basic living expenses for an average worker or office staff. An ordinary family might afford this additional expense. However, the pressure would be high on a family with a lower income, which already could not make both ends meet because of low employment rate and heavy family burden.

## **3. Price Increases Remain Extremely Unbalanced in Different Regions, Residents Differ in Buying Power**

Price increases in cities and towns were sharper than those in rural areas. The living expenses in cities and towns were up 5.1 percent in 1991 over 1990, an increase of 2.3 percent compared with those in rural areas. The main reasons which resulted in the higher cost of living in urban areas over that in rural areas were: 1. The increased selling prices of grain and cooking oil rationed to urban residents caused urban commodity prices to rise. However, such increases did not affect the rural areas much. The retail prices for grain in the countryside dropped 0.1 percent in 1991 from 1990. 2. There were fairly large increases of service fees in urban areas. During 1991, cities and towns saw an increase of 10.8 percent for various service items compared with 1990, and 35 medium-sized and large cities witnessed increases as high as 21.6 percent against a 7.3 percent increase for service items in rural areas. Because urban residents' living expenses were much larger than their rural counterparts, the consumption level of rural residents were much lower than that of urban residents. A survey showed that the per-capita income used as living expenses by urban residents in 1991 was 619.79 yuan, up 6 percent over 1990, or an increase of 3.6 percent if cost of living increases are factored in. This figure was 4.6 percent lower than the actual rate of growth of urban residents' consumption level.

Price increases in provinces, cities and regions were quite different. Price hikes in the three major cities directly under the central government administration were apparently higher than the national average figure. Beijing, Tianjin and Shanghai saw increases in living expenses by 11.9 percent, 10.2 percent and 10.5 percent respectively. Provinces in the remote northwest witnessed increases ranging from 4.3 percent to 7 percent. Coastal provinces and districts saw increases between 2.1 and 3.5 percent. Compatible with this situation, the actual rate of growth in consumption in areas with sharp price increases was low, while that in areas with small

price increases was actually high. For example, Beijing, Shanghai and Tianjin saw rises of living expenses in 1991 by 13 percent, 11.9 percent and 10.1 percent respectively over the 1990 figures. When cost of living rises are factored in, Beijing and Shanghai saw increases of 1 percent and 1.3 percent respectively in terms of consumption, while Tianjin saw a 0.1 percent drop in consumption. In other localities such as Guangdong, Fujian and Guangxi, residents saw increases of 17.7 percent, 13 percent and 15.2 percent respectively in consumption after cost of living rises were factored in.

#### 4. Residents Applied Stabilized Buying Psychology To Cope With Inflation, and Their Savings Deposits Continued To Grow

After the buying spree in 1988 caused by demand inflation and the changing cycles of fierce competition for marketing and price reductions in 1989 caused by a sluggish market, consumer mentality matured. Commodity prices stabilized, there were plenty of goods in 1990 and 1991, the inflation rate dropped, and alleviated fear about inflation. Residents' savings deposits steadily increased in 1991, although the state abolished the inflation-proof savings program and lowered the interest rate. According to a survey conducted among residents, the per-capita cash on hand for urban residents was 118.9 yuan, and per-capita savings deposits reached 242.31 yuan, up 3.8 percent and 8.1 percent respectively over 1990. Per-capita cash on hand for rural residents was 206.86, down 13.4 percent from 1990, while the per-capital savings among rural residents was 99.17 yuan, up 1.9 percent over the previous year. According to statistics compiled by the People's Bank of China, urban residents' savings accounted for 75 percent of the 910.7 billion yuan saving deposits in the bank during 1991; and 84 percent of their savings deposits were in various types of time deposits.

Thus, it can be seen that although the state had made some price readjustments, the policy of improving the economic environment and rectifying the economic order, the basic balance between the total supply and the total demand and the improved macroeconomic environment had stabilized commodity prices on the market and helped the people lead a stable life. In the meantime, the residents' net incomes and living standards steadily increased, because the state did a good job in price reform and implementing a series of measures for macro-economic readjustment and control. However, it should be realized that the latent inflationary pressure remains high, that the symptom of unreasonable income distribution still exists in society and that the gap between high income families and their low income counterparts continues to widen in living standard. These problems should be solved while continuing reform.

#### Zou Jiahua on Project Owner Responsibility System

OW0109082592 Beijing XINHUA in English  
0755 GMT 1 Sep 92

[Text] Beijing, September 1 (XINHUA)—China has decided to implement a project owner responsibility system in the construction of large- and medium-sized infrastructural projects.

Vice Premier Zou Jiahua said the implementation of this responsibility system is an important reform in transferring the management mechanism of construction project investment and improving investment efficiency.

According to the regulations of the responsibility system, project owners are responsible for the planning, raising funds and organizing design, as well as construction of projects. Meanwhile, the owners are also responsible for the repayment of loans and insuring and increasing the value of state property.

At present, the responsibility system has been practised in more than 30 large- and medium-sized infrastructural projects across the country, which has produced good results.

#### State Decontrols Capital Goods, Transportation Prices

OW0109112192 Beijing XINHUA Domestic Service  
in Chinese 0509 GMT 1 Sep 92

[By reporter Fu Gang (0265 0474)]

[Text] Beijing, 1 Sep (XINHUA)—A responsible person of the State Commodity Prices General Administration said here today: The State Commodity Prices General Administration recently released a revised list of prices on capital goods, and communication and transportation services, cutting the categories of prices under the control of the administration and pertinent state departments from 737 at the end of 1991 to 89.

According to the new list, enterprises will be allowed to set the prices of 571 categories of goods, including lubricants, raw oil, petroleum pitch, medium-grade coal, coal sludge, soda ash, aluminum, lead, some steel products, gypsum, and the majority of machinery and electronic products. Provincial, autonomous regional, and municipal commodity price departments will be responsible for deciding the prices of 22 categories of products.

With the State Council's approval, national unified ex-factory or selling price ceilings for capital goods not covered by state plans—including crude oil, petroleum products, steel products, pig iron, copper, aluminum, zinc, tin, nickel, soda ash, and caustic soda—will be lifted effective 1 September.

### **Zou Jiahua Attends Inauguration of Enterprise Group**

*OW0309061092 Beijing XINHUA Domestic Service in Chinese 1131 GMT 2 Sep 92*

[By reporter Gu Honghong (7357 3163 3163)]

[Excerpt] Beijing, 2 September (XINHUA)—With the approval of the State Council's economic and trade office, China's leader in mechanical engineering, the Huada Mechanical Engineering Group was inaugurated today in Beijing. Zou Jiahua, premier of the State Council, attended the inauguration ceremony. [passage omitted]

### **Foreign Funds in Chang Jiang Delta Tertiary Industry**

*HK0209092692 Beijing XINHUA Hong Kong Service in Chinese 0521 GMT 18 Aug 92*

["Roundup" by reporters Lu Guoyuan (7120 0948 0337) and Zhang Weidi (1728 0251 1717): "Tertiary Industry—New Realm of Foreign Investment in Chang Jiang Delta"]

[Text] Nanjing, 18 Aug (XINHUA)—As tertiary industry is increasing its proportion in the economy in the Chang Jiang Delta area, overseas companies and businessmen are also substantially increasing their investment in tertiary industry in this area.

When covering news there, these reporters found that a lot of such large foreign investment projects in tertiary industry as the "World Scenery City," the "Water Recreation Center," the Film Commercial City, and the residential estate for overseas businessmen had been launched; and that foreign investment had entered the vast urban and rural areas in the Chang Jiang Delta area and had been creating a new economic, trade, and cultural environment.

The situation in the economically developed areas of Jiangsu, Zhejiang, and Shanghai showed that since the beginning of this year, foreign investment had continuously entered the real estate, tourist, catering, banking, commercial, warehouse, information and consulting service industries. The investment projects in these industries were large in size and new in content, and became the main characteristics of the new upsurge of foreign investment in the Chang Jiang Delta area.

Hong Kong's Bailida [4102 0448 1129] Company recently launched a 320-million-yuan joint investment project with the Garden Management Department of Suzhou City to develop China's only land-and-water city gate scenic spot. The company also invested more than \$89 million in building a modern recreation center and setting up a large commercial enterprise and a real estate development company.

Hong Kong's Jinma [6855 7456] Group is a joint venture of investors from Hong Kong, Japan, Singapore, and

Taiwan. It has bought 32.61 hectares of land in Hangzhou, and will invest \$100 million in building "Menghu Garden," a real estate project, near the Xi Hu of Hangzhou. In three years' time, there will be hundreds of villas of various styles and a range of cultural and recreational facilities.

Tertiary industry investment in Shanghai's Pudong District has been increasing more rapidly than the investment in manufacturing industry. In the first six months of this year, 38 commercial buildings were built there, and the total investment in these projects exceeded 7 billion yuan. At present, dozens of famous foreign companies have expressed the intention of running tertiary industry enterprises in this district.

The Chang Jiang Delta area, including the 14 large and medium-sized cities there, is one of the areas with the most developed industry, commerce, and trade in China. At present, the economy there accounts for about one-fifth of the national total. The solid foundation and technological strength of the delta area have strongly attracted foreign investment. According to incomplete statistics, more than 6,000 approved foreign-funded enterprises are now operating there.

It is learned that since the beginning of this year, various provinces and the municipality in the Chang Jiang Delta area have successively adopted a series of measures for attracting foreign investment to tertiary industry. Jiangsu, a leading province economically, recently announced that it would support foreign-funded land development projects, and support the establishment of large foreign-funded retail businesses and other service facilities operating on a trial basis. So far, nearly 100 foreign-funded real estate development companies have been set up in Jiangsu.

People in economic circles said that the rapid development of tertiary industry and the bustling investment activities of foreign investors in tertiary industry will substantially quicken the delta area's process of economic internationalization, and will enable the dream of building a string of modern cities in this area to come true at an earlier date.

### **Yuan Mu on Developing Tertiary Industry**

*92CE0631A Beijing GUANLI SHIJIE [MANAGEMENT WORLD] in Chinese No 3, 24 May 92 pp 30-32*

[Article by Yuan Mu (5913 2606): "Issues in Accelerating the Development of Tertiary Industry"]

[Text] Editor's note: The tertiary industry is an essential part of China's national economy. It is enormously significant that its development be accelerated. To review the development of the tertiary industry and spur the related policy research, the Chinese Enterprise Evaluation Center of GUANLI SHIJIE, the comprehensive section of the office of the State Council, and the finance and banking group and transportation group of the

Research Office of the State Council jointly organized a seminar on growth and development policies for China's tertiary industry in Beijing in mid-March. Reprinted below for your information is a paper presented at the seminar. [end editor's note]

A basic mission of socialist construction by the people under party leadership is the liberation and development of productive forces. We must grasp the existing favorable opportunity to speed up reform and the open policy and concentrate our energies on economic construction. In accordance with the theory and line of building socialism with Chinese characteristics advocated by Comrade Deng Xiaoping, an important aspect of accelerating China's modernization is speeding up the development of its tertiary industry.

In China, the three-fold classification of industry and the explicit call for the development of tertiary industry was a major achievement of reform and openness in the 1980's. Traditionally China followed the old Soviet statistical and classification methods and divided the entire national economy into the material production sector and nonmaterial production sector. This classification scheme rejected the nature and role of the participation in material production by the tertiary industry in modern social specialization, often resulting in the exclusive pursuit of industrial and agricultural output while overlooking the tertiary industry. For this reason, it has done a lot of harm. Based on the conditions at home and taking into consideration the situation overseas, the State Council in 1985 adopted the "Evaluation Report on the Tertiary Industry" submitted by the State Statistical Bureau at a time when urban and economic reform were getting under way across the board. Adopted in the interest of the structural rationalization of the national economy and of coordinated social and economic development, the report for the first time clearly divided industry in China into three major sectors and incorporated the output value of the tertiary sector into the GNP to correctly reflect its status and role in the national economy. Under the new classification scheme, primary industry includes agriculture (including animal husbandry, fishery, and forestry), secondary industry includes industry (including mining, manufacturing, running water, electric power, steam, heated water, and coal) and construction, and the tertiary industry includes all industries except those in the two categories mentioned above.

Because of the attention it began to receive, the development of the tertiary industry accelerated in the Seventh Five-Year Plan, faster than the growth in the GNP. Between 1986 and 1990, China's GNP grew 7.8 percent annually on the average in comparable prices while the tertiary industry expanded 8.7 percent each year. It accounted for 27.2 percent of the GNP in 1990, up from 24.8 percent in 1985, and provided 18.6 percent of the jobs in society in 1990, up from 16.7 percent in 1985.

While the tertiary industry has developed fairly rapidly in recent years, it still trails that of its counterparts in

both developed and developing nations because of its late start. For one thing, its share of the GNP is still quite modest, less than 30 percent, compared to 60 or so in developed nations, 50 percent in middle-income nations, and 35 percent in low-income nations. Second, China's tertiary industry provides a relatively small share of social employment, under 20 percent, compared to about 60 percent in developed nations and 40 percent in some developing nations. Thus we must accelerate the development of the tertiary industry now and throughout the 1990's if it is to satisfy the needs of economic and social development. What is needed here is a correct estimate and sober understanding.

—A vigorous push to develop the tertiary industry will effectively boost industrialization and modernization. China is a developing nation with a predominantly agricultural population; of its population of 1.1 billion, over 900 million people live in the countryside. Confronted with the dual task of industrialization and modernization, not only must we continue to expedite the transition from an agricultural society to an industrial one, but we must also improve the overall quality of the national economy and speed up modernization. The development of the tertiary industry will effectively provide the primary and secondary industries with all sorts of information, technology, services, and qualified personnel, boosting their output both qualitatively and quantitatively, thereby significantly improving the efficiency of the national economy overall. The rise of the tertiary sector, particularly new information and electronic industries, has not only wrought enormous changes in the structure of social productive forces, but has itself become a basic part of modernization. Some of our large cities are every bit just as strong as Hong Kong and Singapore in industrial equipment, technological forces, and social and cultural levels. However, their level of modernization is lower mainly because of their backward tertiary industry, particularly finance and information. To speed up China's industrialization and modernization, therefore, we must accelerate the development of the tertiary industry.

—The accelerated development of the tertiary industry will markedly raise the people's living standard and improve their quality of life. Consumption demand in China is now diversifying. People are spending relatively less on food and clothing and relatively more on housing, health care, education, culture, entertainment, and tourism. In line with these changes, we should vigorously develop the tertiary industry, both old and new, in the 1990's in order to provide society with an even more diverse and thoughtful range of services and satisfy the consumption needs of the masses at every level, thus improving the public's quality of life appreciably.

—Expediting the development of the tertiary industry will open new areas of employment and create more jobs, thus ensuring social stability. Most trades in the tertiary industry require relatively little capital but are

labor-intensive, which means that they can accommodate large numbers of workers. Thus developing the tertiary sector can open new fields of employment in society and increase jobs, considerably easing the pressure on society to create jobs and ensuring social stability. As productivity rises in the primary and secondary industries in the years ahead, more urban and rural workers will become redundant. We must necessarily look toward the tertiary industry to provide jobs for most of these workers as well as new entrants to the work force.

—The accelerated development of the tertiary sector will help spur the construction of a socialist spiritual civilization. During his recent inspection tour to the south, Comrade Deng Xiaoping said, "Provided we develop our productive forces, keep the economy growing at a proper rate, and insist on tackling with both hands, we will succeed in constructing a socialist spiritual civilization." The tertiary industry encompasses many trades and covers a broad area, including education, scientific research, culture and arts, television and radio broadcasting, press, publishing, health care, and sports. By developing these sectors and trades, we can raise the scientific and cultural levels of the masses and the quality of the work force and elevate their moral standards, thereby contributing to the construction of the socialist spiritual civilization and material civilization.

In light of the above understanding, I believe we need to resolve the following issues if we are to accelerate the development of the tertiary industry now and throughout the 1990's.

First, pay close attention to the growth rate of the tertiary industry. To meet the demands of the 10-Year Plan and Eighth Five-Year Plan, the tertiary industry must continue to grow faster than the primary and secondary industries. In other words, while agriculture and industry are to grow 3.5 percent and 6.5 percent, respectively, each year on the average, the tertiary industry must grow 9 percent. By the year 2000 the tertiary industry will account for one-third of the GNP, up from the current one-quarter. If we take advantage of the existing opportunity to speed up reform, the open policy, and economic development, the tertiary industry may expand even faster. In formulating annual economic and social development plans, governments and the pertinent departments at all levels should incorporate the tertiary industry into plan objectives and provide for it appropriately in the areas of funds, materials, and transportation to ensure that our growth objective for that sector is achieved. Do our best to speed up the development of this industry even more.

Second, in conjunction with the adjustment of the industrial structure, concentrate on the development of those trades that provide services for production or for the people in their daily life. Today China's industrial structure remains seriously lopsided. Adjustments need to be made among the primary, secondary, and tertiary sectors

as well as within each sector. Within the tertiary industry itself, we should focus on the development of industries that provide services for production or for the public's daily life, including such traditional trades as commerce, foreign trade, materials, supply and marketing, and catering, and new services and trades like finance, insurance, consulting, information, tourism, and real estate. As they carry out structural adjustment and reform the enterprise system, governments and the agencies concerned at all levels should take everything into consideration and think comprehensively, taking special care to use the plants, equipment, and personnel of the industrial enterprises affected to develop tertiary industry. The development of the tertiary industry, in turn, will provide services for production and contribute to the deepening of reform. In the countryside, we must continue to stabilize the household responsibility system of linking remuneration to output and continuously improve the two-level operating system combining integration with separation. Then we can vigorously develop a system of socialized services for agriculture, particularly supply and marketing, science and technology, and education that will serve agriculture.

Third, fully mobilize the enthusiasm of all sectors for developing the tertiary industry. In developing the tertiary industry, we must continue to adhere to the principle of involving the state, the collective, the individual, and the private economy all at the same time. In this connection we must further liberate our thinking and ease our policy a little bit more. In the case of the ordinary services and trades, we must give collective and private enterprises as well as individual households a free hand even as we step up management. While insisting on a dominant role for public ownership, we must further develop the individual economy and private economy, broadening their area of operations and mobilizing their enthusiasm even more to bring out their positive supplementary role. As for trades and services that impact the national economy and people's livelihood, like finance, foreign trade, posts and telecommunications, aviation, and rail transport, a competitive mechanism must be introduced to break up any monopoly. The educational sector must rise up to the demands of structural adjustment and mobilize the enthusiasm of all quarters in society for offering educational services and train even more professionals for the tertiary sector.

Fourth, make the most of the law of value as a regulator and gradually deregulate prices in the tertiary industry. In accordance with the principle of combining the planned economy with market regulation, prices in the tertiary sector should be managed by kind. Here is a tentative plan. The first kind should consist of industries that play a leading role in the national economy and for which there is an extensive need, such as posts and telecommunications, rail transport, aviation, finance, foreign trade, and insurance. Here the state should continue to set price standards but must be ready to adjust prices and fees as costs and supply and demand

change. The second kind should consist of trades and industries like housing, public transportation, catering, culture and entertainment, education, and health care where the citizen spends a considerable portion of his consumption dollars. Here we should use a mix of unified official prices and floating prices, primarily the latter. The third kind should consist of services on which the citizen spends relatively little and services that have newly emerged, such as consulting, information, and technical service. Here there must be no price control; all prices are to be totally regulated by the market. This is a highly preliminary plan presented here for public reference and discussion only. In short, the price factor has a tremendous impact on the development of the tertiary industry. We must study it in earnest and decide on the right policy.

Fifth, enterprises and institutions within the tertiary industry must speed up reform and openness. When all is said and done, the driving force fueling the growth and development of China's tertiary industry is the deepening of reform and the broadening of the open policy. To meet the demand of developing a socialist commodity economy, all enterprises in the tertiary sector must orient themselves to the market and change their mechanism to revitalize themselves in the midst of competition. It is a case of survival of the fittest. Qualified institutions must practice commercialized management. Governments at all levels must streamline their administrative structure and overhaul their functions. Enterprise management must be strictly separated from government administration and administrative interference must be minimized to lay the groundwork and provide services for the development of the tertiary industry. We must boldly learn from success stories in the development of the tertiary industry in developed countries. Assiduously nurture a host of comprehensive enterprise groups, inter-industry and inter-sector, that start out from a high level and operate on a large scale. For example, strongly support chain stores, the wave of the future in retailing, enterprises, and corporations that integrate production, finance, trade, and technology under one roof. In addition, we must pay special attention to the flurry of advanced models that have emerged in our own tertiary industry in recent years. Review their positive experiences closely and gradually replicate them in light of local reality.

#### **Journal on Quickening Reform Pace**

*HK2108114692 Beijing JINGJI YANJIU in Chinese  
No 4, 20 Apr 92 pp 3-9*

[Article by Wu Jinglian (0702 2417 8834) of the State Council Development Research Center: "Some Thoughts on Quickening the Pace of Reform"]

[Text] The CPC Central Committee recently decided to make the best of the present favorable opportunity to quicken the pace of reform. This decision conforms to the historical trend of the times and is in keeping with the aspirations of the people. The vast number of cadres

are greatly bestirred. Everyone wants to work and blaze new trails. A new high tide of reform and opening is approaching. At this important historical juncture, we economists must seriously ponder the question of how economics can continue its contribution in this historic cause that will determine the future and destiny of our nation.

#### **I. Sum Up Practical Experience in Reform, Intensify Efforts To Bring Forth New Theories of Socialism**

Since the Third Plenary Session of the CPC Central Committee, the Chinese people have, under the guidance of the party's ideological line of seeking truth from facts, embarked on the great cause of building socialism with Chinese characteristics. In this historic practice which has no precedent, an integrated line has been formed. This is the basic line with "one central task and two basic points" as the main component. Revolving around the central task of economic construction, and combining upholding of the four cardinal principles with adherence to the reform and open policy, the masses in their hundreds of millions have worked in a down-to-earth way and opened up new prospects for socialist construction. We owe it to the implementation of this line for the great achievements of socialist construction, the flourishing development of the economy, the rapid improvement of the people's livelihood, the prosperity of the market and the stability of society in recent years.

Real knowledge comes from practice. The great practice of reform and opening has given impetus to the development of economic theories. Over the years, we have, based on practical experience in reform and opening, freed ourselves from the trammels of out-dated dogmas which had been followed for many years, boldly put forth new theories of Marxism, and made our contributions toward developing Marxist theories of socialism.

However, the implementation of this line will, by no means, be plain sailing, and without twists, turns, or setbacks. Looking back, every step we took in our advance was the result of overcoming all kinds of obstacles and resistance and making continuous efforts to weed through existing ideas to bring forth new ones. Obstacles to the basic line are coming from both the "left" and the right. However, as pointed out in the political report delivered at the 13th CPC National Congress, "since the old leftist habits of thought are deep rooted and since they are the main source of obstacles to the reform and open policy, the major task for quite a long time will be to overcome hidebound thinking." (Footnote 1—*Documents of the 13th CPC National Congress*, People's Publishing House, 1987, p 16) Obstacles from the "left" mainly find expression in stubborn adherence to dogmas proved outdated by practice, opposition to the bringing forth of new Marxist theories, and opposition to the fundamental transformation of the traditional, ossified structure.

Engels once correctly pointed out: "Marx's world outlook as a whole has to do with methods, not dogma.



What it provides is not ready-made dogmas, but the starting point for further studies and the methods to be employed in these studies." (Footnote 2—Engels: "Letter to W. Sombart (11 March 1895)," *Collected Works of Marx and Engels*, Vol 39, People's Publishing House, 1975, p 460) Due to their failure to grasp this quintessence of Marxism or for other reasons, some people did not understand the new concepts and new knowledge of socialism which had developed through the practice of reform and opening. It is normal for them to have reservations about or even oppose these concepts. We should at all times allow the free and earnest discussion of the relevant theories and policies and cannot resort to oversimplistic or crude methods to resolve the problems. Still less should we intimidate people by pinning labels on them, stifle differing opinions, and arbitrarily push theoretical viewpoints and policy propositions contrary to the party's line of reform and opening. Since the Third Plenary Session of the 11th CPC Central Committee, this kind of relapse that resists and opposes reform and opening has occurred many times, and every relapse has led to the halting, even regression, of reform and opening in particular fields.

In the recent relapse, some people instigated an all-round criticism of the theories and policies of reform and opening over the past dozen or so years. They said that reform during the years between the Third Plenary Session of the 12th CPC Central Committee and the Fourth Plenary Session of the 13th CPC Central Committee was led by the nose by bourgeois economists, alleging that their blind faith in market force had led to serious losses. They demanded clarification of each reform measure, whether it was "capitalist" or "socialist" in nature, and nothing was to be borrowed from the capitalist economy (not even a concrete practice like the bonded area). They argued that to do so would "lead reform and opening to the evil capitalist road."

They spearheaded their criticism particularly against the theoretical basis of the line of reform and opening, namely, the theory about the socialist commodity economy. We know that during the International Communist Movement, the idea that socialist public ownership and the commodity economy (market economy) were incompatible was deeply ingrained in people's minds. "Regardless of their intentions, people who in their course of action strengthened the market rather than fought against it were developing capitalism." (Footnote 3—See Sweezy and Bertrand: *On Transition to Socialism* Chinese translation, People's Publishing House, 1975) It was after World War II, when socialism reached a stalemate in the economic development of many countries and experienced setbacks in its peaceful competition against capitalism, that more and more people realized that the central planning economy, as a form of resource allocation which rejected commodity-money relations and the regulatory role of the market, had fundamental defects and could not efficiently (both static and dynamic efficiency) allocate resources. In order to ensure the efficient operation of the socialist economy, it is necessary to

reform the central planning system established on the basis of the so-called "product economy." However, due to the biased view that socialist public ownership and commodity-money relations are incompatible, many socialist countries merely introduced the market mechanism into the existing command economy in their reform. Since they still regarded commodity-money relations as alien forces that socialism was compelled to utilize, they were unable to fundamentally change their economic structure. Chinese Marxists headed by Comrade Deng Xiaoping broke free from this rigid way of thinking which had become a custom through long usage. In 1984, the "Decision on Reform of the Economic Structure" adopted at the Third Plenary Session of the 12th CPC Central Committee emphatically pointed out the need to change the "ossified mode" of the central planning economy. "It is necessary to discard the traditional idea of pitting the planned economy against the commodity economy. We should clearly understand that the socialist planned economy is a planned commodity economy based on public ownership, in which the law of value must be consciously followed and applied." This fundamentally negated the erroneous view preached by traditional socialist economic theories, which treated commodities and money as alien forces. The basic choice for the socialist economic structure was made, thus truly realizing the "fundamental change" in the "way one looks at socialism as a whole," which Lenin talked about not long before his death. (Footnote 4—Lenin: "On the Cooperative System," *Selected Works of Lenin*, Vol 4, People's Publishing House, 1972, p 687) It was precisely due to this fundamental change in the concept of socialism that new prospects were opened for the socialist cause in China. Thus, as Comrade Deng Xiaoping noted, this "document is of historic significance." "This document is excellent, for it explains to us what socialism really is." "Did we not talk about upholding the four cardinal principles? This is a true case of upholding socialism. Otherwise we will make the mistake made by the Gang of Four, who 'preferred the weeds of socialism to the saplings of capitalism.'" (Footnote 5—Deng Xiaoping: "Speech at the Third Plenary Session of the Central Advisory Commission," *Important Documents Since the 12th CPC National Congress*, People's Publishing House, 1986, pp 592-599) Recently, Comrade Deng Xiaoping also emphatically pointed out: "Planned economy is not the equivalent of socialism, for capitalism also is planning. Market economy is not the equivalent of capitalism, for socialism also has markets." Socialism can and indeed must be established on the basis of the commodity (market) economy. This development of Marxist political economy and socialist theories is no doubt of world historic significance. It is thus not surprising that some people made a converged attack on the ideas that socialism and commodity-money relations are compatible and that efforts must be made to develop theories and policies regarding socialist commodity (market) economy. During 1982-1983, they instigated the criticism of the "commodity economy theory" and "the planned commodity economy theory." During 1990-1991, they pitted the planned economy and the commodity economy against each other,



although this time the term "market" was used instead of "commodity" due to changed circumstances. They alleged that the "market orientation is equivalent to the capitalist orientation," that "the stressing of market forces is the main content of bourgeois liberalism," and referred to common calls that meet the needs of socialized large-scale production in reform and opening as attempts to "promote the capitalist road of reform" in an effort to negate the slogan and relating policy measures on developing the socialist commodity economy adopted at the Third Plenary Session of the 12th CPC Central Committee.

Since the theory of the socialist commodity economy is the theoretical foundation of our reform and open policy, in order to usher in a new high tide of reform and opening, we must sum up experience in reform, increase and further the study of the socialist commodity economy theory, and clarify issues of right and wrong. This is the unshirkable duty of economists.

## II. Further Improve Our Understanding and Grasp the Essence and Orientation of Reform

"Goodness is not easy to detect; reason is not easy to understand." Our understanding of the essence and content of reform is a gradually deepening process.

After going through a tortuous course in the development of socialist economy in past decades, particularly after the catastrophic Cultural Revolution, more and more people have come to feel strongly the need to reform the traditional central planning economic structure which is fraught with defects. At the outset, however, their understanding of the defects of the traditional structure was skin deep and superficial. They only saw that the overcentralization of power had hampered the initiative of local authorities, enterprises, and the laboring masses and dampened their enthusiasm. What they did not understand was that the overcentralization of power was an essential characteristic of the allocation of resources by administrative means. If, instead of fundamentally reforming this mode of resource allocation which seriously fetters the productive forces, we simply make a few adjustments within the framework of the command economy, add a few material incentives by "delegating power to lower levels, and let them retain a proportion of profits," we will not be able to produce an economic structure that can effectively allocate resources and ensure the sustained, steady and coordinated development of the entire economy. If we carry out the principle of "administrative division of power," following the example set by some countries in adopting the models of "multi-center statism" or "administrative socialism based on division of power," we will end up in greater chaos, even separatist regimes and splits. The essence of the reform of the socialist economy is to change the mode of resource allocation from the traditional central planning economy to the commodity (market) economy. Only institutional arrangements and changes in operating rules that serve this target are worthy of being called reform. This point has become

increasingly clear. The great significance of the "Decision" of the Third Plenary Session of the 12th CPC Central Committee lies precisely in the fact that it took the establishment of a socialist commodity economy as the target of reform. It was along this line that the "Decision" took the following two principal aspects of the market system as the main direction of assault in the economic restructuring. These two aspects are: "Invigorating enterprises is the key to restructuring the national economy" and "reform of the price system is the key to reform of the entire economic structure." Based on this basic concept, the party congress in 1985 put forward concrete requirements for reform. The Proposal for the Seventh Five-Year Plan adopted by this congress pointed out that the new socialist economic structure covered three interrelated areas; namely, enterprises with relative independence and full power of management, a competitive market system, and a system of macroeconomic control with indirect control (through the intermediary of the market) as the principal form of control. The 13th CPC National Congress further elaborated on these three interrelated aspects. The Political Report of the 13th CPC National Congress pointed out: "On the whole, under the new economic mechanism 'the state regulates the market, and the market guides enterprises.' The state regulates the relations between supply and demand through economic, legal and necessary administrative means and creates a favorable economic and social environment in which enterprises are guided toward correct management decisions." (Footnote 6—*Documents of the 13th CPC National Congress*, People's Publishing House, 1978, pp 31-32) Economic reform involves many tasks, and there are innumerable aspects and links that need to be changed in the economic structure. If we do not understand the essence and content of reform and do not know the basic orientation of reform, our specific reform measures will be no more than a fortuitous accumulation of contingency measures that treat the symptoms rather than the disease. Such piecemeal measures cannot give shape to a commodity economic structure, and naturally cannot yield the anticipated results. If the worse happens, these measures may even contain and offset one another and lead to new chaos.

In the past, due to the prolonged influence of ossified thinking, many people were hostile toward or frightened of market forces. It was only after more than 10 years of reform that people gradually changed their view and began to see the commodity (market) economy as a "form of economic operation suited to socialized large-scale production," a form that will contribute toward the prosperity of the economy, the improvement of the people's livelihood and the consolidation of socialism. However, we should soberly recognize that it is no easy task truly knowing the essence of reform, understanding that all reforms must serve the development of the commodity economy, and consciously grasp the relations between specific reform measures and the overall

aim of reform. In the first phase of readjusting the national economy and improving the economic environment during 1988-1989, the use of administrative means to keep total demand and total supply under control was a necessary measure. Our objective was to create a fine economic environment for further reform. This local and temporary "tightening" was not our aim, but a preparatory step for further "opening." However, some people regarded the handing over of power, strengthening of administrative control and extension of the scope of mandatory planning as reform measures. Propositions and practices which define the reform of the planning system as an increase of mandatory targets and define the reform of material management as the broadening of the scope of material allocation, which call for the merging of double-track pricing along the line of planned pricing, and which support the idea that enterprise groups should be modeled on administrative companies spread far and wide. These practices have confused the concept of reform.

Due to the prolonged influence of the concept of the command economy, people were seen to be judging and handling new things by old standards in recent discussions and implementation of "the need to effect changes in the enterprise operating mechanism." Thus, the phenomenon of putting the cart before horse or losing one's objective is likely to continue for some time. Last summer, when summing up experience in invigorating state enterprises, many economists shared the view that reliance on such means as stronger administrative leadership, management by trade, credit stimulation, tax reduction and letting enterprises retain a proportion of profits could not invigorate state enterprises. They put forward the view that the solution lay in the transformation of the operating mechanism. Their idea of the change of operating mechanism is the synonym for the fundamental reform of the entire economic structure or economic operating mechanism. As we all know, mechanism is a term borrowed from engineering and physiology. It is a system or process by which a machine or physiological organism produces a particular general function through the movement and interaction of different component parts (spare parts or organs). Thus, "mechanism" by definition involves a system or process. The change of economic mechanism thus means changing the way the entire economic system operates, from the command economy to a new economic system of commodity (market) economy. "The enterprise operating mechanism" thus refers to the process by which an enterprise, as a cell of the socio-economic system, realizes its functions of production and blazing new trails through energy exchange with the external environment. Without the establishment of enterprises which enjoy management autonomy and assume full responsibility for their own profits and losses, and the establishment of a competitive market system, "changes in the enterprise operating mechanism" cannot take place. However, although people accepted the idea of "changes in mechanism" or "changes in the enterprise operating mechanism," many of them did not quite understand the

essence and content of "changes in mechanism." Thus, "changes in economic mechanism" suddenly was taken to mean "the internal operating mechanism of enterprises." Moreover, this "internal operating mechanism of enterprises" was further split into a dozen, even dozens of, "mechanisms," including the "wage mechanism," "bonus mechanism," "social security mechanism" and "technological advancement mechanism." "Mechanism" thus gradually became another term for single-item measure, means, or method. The fact is, we cannot bring about fundamental changes in the operation of enterprises simply by changing the "internal mechanisms" without a change in the whole economic system. More often than not, "changes" of this kind returned to their normal state after a brief spell of bustle and excitement.

In order to change this situation, it is necessary to further deepen our understanding of the essence of reform as well as the orientation of reform. Economic theorists should contribute their share in this connection.

### III. Actively Study the Overall Program and Design of Reform as Well as the Specific Steps of Implementation

The comprehensive and complicated nature of reform determines that in our future efforts to greatly advance reform, all moves must be carefully planned and orchestrated in order to guide this revolution, which is participated by the masses of hundreds and millions, to develop along the correct track. The essence of the economic reform is a transition of the whole economic system from a command economy to a commodity economy. Such a mammoth project of systems engineering no doubt needs coordination in order to achieve harmony between reforms in various aspects of the economic structure and between different parts of the new structure. The bigger the scope of coordination and the greater the harmony between various aspects of the new economic system, the more effectively it will operate. On the other hand, because the economic structure is an extremely complicated and big system, we cannot expect to see various components of this system established and perfected overnight. Moreover, reform involves cost. With limited resources, it is necessary to set the priorities and carry out reform in a systematic way. All these determine the need to make appropriate arrangements for various reform programs beforehand.

Since reform cannot be completed overnight but must be carried out in a systematic way, there will be a period of transition when both the old and the new structures coexist during the process of replacing the old structure by the new. At present, our economy is in the middle-to-latter stage of this transition. On the one hand, the old command economic structure has been broken down in many respects. The central planning organs which used to resort to administrative means to allocate financial and material resources, quotas and items can no longer enforce orders and prohibitions, but the new economic structure has yet to be established as a system, especially in the state sector, which is the backbone force of our

economy. This inevitably led to confusion in the resource allocation function and produced many serious negative results. This is a major reason why our public sector (including state enterprises and state financial departments) finds itself in a tight corner. The experience of socialist countries in reform proves that in the replacement of the old structure by the new, the transitional period when both structures coexist should not be too long drawn out and should instead be kept as short as possible. Otherwise, the friction between the part "outside the structure" which has already been invigorated and the part "within the structure" which is to a large extent still subject to the traditional mechanism, coupled with the presence of numerous loopholes under the dual structure, will render it impossible for the economy to operate more efficiently. The prolonging of this situation will undermine the sustained, steady and coordinated development of the national economy. Even if economic prosperity has appeared, it cannot last. Thus, in view of the fact that both the old and new structures are existing side by side and no one in the public sector can effectively exercise the overall function of resource allocation, we should strive to end this state of confrontation between two structures as quickly as possible and establish a main pillar that supports the operation of the new economic system. This has become a pressing task that will free us from our predicament and lead us to prosperity. On the other hand, we are still weak in national strength and do not have a sufficient reserve. What is more, we are still under the potential threat of inflation. Thus, we must be bold in mapping out our strategies and prudent in our tactics. When introducing reform measures, we must carefully set the priorities and relations between different reforms on the basis of available resources. This requires that careful preparations be made before the large-scale launch of reform measures. For instance, after missing the golden opportunity two years ago when the market was sluggish and total supply greatly exceeded total demand, we must be more prudent in choosing the items in carrying out the price reform today. We must not only set the priorities and time the launch of the reform programs, but must make necessary leeways and take the necessary precautions against contingencies.

Since we lack experience and since reform brooks no delay, we could only "learn while working," "work while learning," "plan as we go along" and move a step at a time in the initial stage of the reform. However, this should be changed as we accumulated experience and deepened our study. Moreover, as the reform deepened and touched on more deep-rooted problems, most reform measures that involved fewer cost and less difficulty in the readjustment of relations between interests entities and were easier to implement had already been introduced. What remains are crucial reforms that are difficult to tackle. These have to be tackled in a planned and systematic way. At the same time, in order to form a complete system so that the new structure can start to operate, the need to make different parts of the structure support one another becomes all the more exacting. Thus, more and more people have come to accept the

idea that reform must be carefully planned and orchestrated. In 1987-1988, the State Commission for Restructuring Economy and a group of economists sat together to discuss the formulation of an interim reform program (also called the three-five-eight program). However, after the outbreak of serious inflation in the summer of 1988, when the improvement of the economic environment became the focal point of economic work, this discussion stopped. During the past few years, our theorists should have concentrated their energy on designing the overall program of reform and plans for the implementation of individual reform items. However, due to waverings in the orientation of reform, it was very difficult for the designing of reform programs to proceed as before. Economists who were still keen on reform had to cope with the endless onslaughts of criticism and take part in discussions on "whether or not reform is necessary," and could not spare more energy on discussing "how to reform." This creates a danger—that is, when the political and economic conditions are ripe for the large-scale launching of reform and the new high tide of reform and opening is just round the corner, we do not have an overall design for reform or plans for the implementation of various reforms that we can follow. This will increase the cost of reform and may even lead to confusion. Reform not only needs preparation in the way of overall design and corresponding programs for implementation, but needs preparation on the part of legislators and cadres. At present, preparation is insufficient in both respects, and every effort must be made to make up for this lack of preparation. For instance, most Chinese economists are of the view that shareholding limited companies with public-owned corporate bodies as the principal shareholder is the most suitable organizational form for large and medium-sized state enterprises, and that efforts should be made to speed up the popularization of this practice. However, the work on relevant legislation has been slow. As we do not have a "Law on Limited-Liability Companies" yet, there are no laws to follow when shareholding companies are set up. It is therefore difficult to guarantee that shareholding enterprises thus set up can be effectively governed. Before this kind of groundwork has produced a marked effect, we have no way of guaranteeing the healthy development of the stock market.

We economic theorists are duty-bound to play our part in designing the overall reform program and planning the specific measures of implementation.

#### **IV. Study the Relations Between Reform and Development, Strive To Achieve High-Speed Development in a Sustained, Steady and Coordinated Way**

The decision of the CPC Central Committee to speed up reform and opening has received the enthusiastic support of the broad masses of the people. The party and government should be adept at guiding and organizing the enthusiasm and initiative on the part of the masses. Economists must also make an earnest effort to study

how the enthusiasm and initiative of the masses can be most effectively brought into play. In order to accomplish this task well, it is important that the relations between reform and development be correctly handled.

On the question of economic development, a point that needs to be made clear at the outset is that China needs to maintain a high rate of growth in the next two to three decades. This need is determined by our present economic condition as well as by the international and domestic situation. On the domestic front, we have not yet completely changed our backward appearance and our per capita gross national product is still lagging behind most countries of the world. As a low-income country, we badly need to increase our overall national strength and improve the people's livelihood. In order to reach a comparatively well-off level by the year 2000 and reach the economic level of a moderately developed country by the year 2050, it is necessary to maintain a relatively high, say 10 percent or higher, average rate of growth. On the international front, the world has already gone through several scientific and technological revolutions, and is likely to see a new scientific and technological revolution toward the end of the 20th century or the beginning of the 21st century. We must catch up. If China, which had already missed several opportunities, let another opportunity slip by, it would be left far behind by the economically developed countries, and our hope that the Chinese nation will stand towering like a giant among the world of nations will fall through. Asia is a region with the fastest economic growth rate in the world, and some of the NIE's [newly industrialized economies] around China have all attained an average annual growth rate of 7 percent or above. As a big country in Asia, China must maintain a growth rate higher than these countries over a fairly long period if for no other reason than to maintain its positive role in Asia.

This demand on economic growth rate stems from the so-called "teleological" point of view. However, from a "genetic" standpoint, growth rate depends on the extent to which economic performance has improved. (Footnote 7—"The teleological principle" and "the genetic principle" were terms used in the Soviet polemics on the speed of socialist industrialization in the 1920's. The former stresses the necessity of the rapid realization of industrialization, while the latter advocates planning in accordance with objective conditions.) Historical experience shows that the continuous improvement of economic efficiency is the precondition for the maintenance of a high growth rate over a long period of time. Without the continuous improvement of efficiency, economic growth achieved at the cost of big investment and high consumption cannot be sustained by our material and financial resources. Even if growth rate does go up for a time, it will fall in no time. It cannot lay a solid foundation for the improvement of the people's livelihood and enable the people to continuously reap more actual benefits. As things now stand, the institutional factor is the major factor affecting the improvement of economic performance. Thus, in order to achieve rapid

economic growth over the long term, it is necessary first of all to change the old structure, which lacks vigor and vitality, and establish a new structure that can operate efficiently. Otherwise, prosperity will be short-lived and cannot last. We have had this experience a few years ago: Before reform had taken a decisive step forward and achieved notable successes, we impatiently accelerated the pace. As a result, inflation struck as soon as we had increased the rate of growth, forcing us to halt our reform for readjustment.

It was based on past experience that the CPC made its scientific conclusion on the correct handling of relations between reform and development at the National Congress in 1985. The "Proposal of the CPC Central Committee for the Seventh Five-Year Plan" pointed out that the most important guiding principle to be followed in economic and social development during the Seventh Five-Year Plan period was to "give priority to reform and make sure that reform and development are adapted to and promote each other." "Basically, reform is in the service of development. At present, however, development should be planned in such a way as to facilitate reform." "To ensure smooth reform, we have to fix a rational rate of economic growth and guard against blind competition and blind pursuit of increased output and output value. This will prevent strains and dislocations in the economy and create a favorable environment for reform."

Economic development during the Seventh Five-Year Plan period shows that these views are entirely correct. It was precisely because we had not followed the above-mentioned guiding principle to the letter and had instead shown the tendency to boost economic growth and slow down reform that led to the high inflation and economic fluctuations in 1988. The above-mentioned guiding principle of the Seventh Five-Year Plan is also applicable to the Eighth Five-Year Plan. At present, a new development is worthy of our attention. This refers to the "policy" of demanding new projects, investment, credits and money whenever the call to greatly boost the economy is made. If all localities and departments follow this "policy," resources that could have been used to support further reform and opening would have been scattered. This would lead to economic "overheating" and inflation. We should explain to the vast numbers of cadres that we should mainly secure efficiency through further reform and secure financial resources through improved efficiency. Rather than resorting to high consumption and high inflation to achieve a momentary high speed before we had achieved a fundamental breakthrough in our institutional reform, we should appropriately slow down the rate of economic growth, say keeping the annual growth rate in gross national product to 6-7 percent, in order to move onto the track of the socialist commodity economy as early as possible. Then we can move full steam ahead while continuously striving for better efficiency. In this way, we can move faster in the long run. Thus, everyone who is keen to see economic development and to see China taking off should first

show enthusiasm in promoting reform and opening. The pace of reform and opening should be accelerated. The present conditions are excellent for quickening the pace of reform and opening. If we organize ourselves properly, it is entirely possible for us to establish a preliminary framework for the new economic structure and lay an institutional foundation for the sustained high-speed development of our economy in about five years. Of course, as the reform progresses and efficiency increases, the rate of growth will gradually increase in line with the increase in efficiency. Some of the advanced regions may be able to form a new economic structure faster than others. As they have greater economic vitality, it is only natural that they be allowed to move at a faster pace.

### **Running Large, Medium Enterprises Well Urged**

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[Article by Tian Fengshan (3944 7685 1472), Standing Committee member of the Heilongjiang Provincial CPC Committee and secretary of the Harbin City CPC Committee: "In Running Large, Medium Enterprises, Pay Close Attention to What Is of Crucial Importance"]

[Text] At present, the outstanding problems facing large and medium state-run enterprises remain rigid mechanisms, inadequate staying power, and poor economic results. The reasons for the problems are many faceted. However, the main reason was that, shackled by the old structure, enterprises still failed to free themselves from the status of being government appendices and establish a flexible operation mechanism commensurate with the development of a planned commodity economy and lacked vitality for market competition and a dynamic force to drive themselves ahead. Moreover, there has been inadequate input in technological transformation for many years and the aging problem with enterprises and technology is quite pronounced. This being the case, in the final analysis, further efforts should be made to run large and medium state-run enterprises, with these problems of substance in mind, centering on the goal of enterprises running themselves independently, assuming full responsibility for their profits and losses, and restricting and developing themselves, beginning with external and internal conditions.

Marxism holds that external causes are the condition for change while internal causes are the basis for change, and external causes become operative through internal causes. Handling the relationship between the state and the enterprises well and separating the functions of the government from those of enterprises serve as an external condition for enterprise development in terms of structure, but in the final analysis, development can be achieved through the enterprises' own endeavors. Therefore, most importantly, enterprises should further emancipate their minds, arouse themselves, concentrate efforts on development of internal departments, enhance their ability to deal with internal issues, and tap their internal

departments' potentialities. In terms of the current situation, close attention should be paid to the three links of "reform, transformation, and management."

### **1. Transform Enterprise Operation Mechanism With the Reform of Enterprise Recruitment, Distribution, and Personnel Systems as the Breakthrough Point**

Reforming enterprise recruitment, distribution, and personnel systems is an important content of deepening the reform of enterprises' internal departments and transforming enterprise operation mechanisms. Some comrades have misgivings and worries about this point and think that wage, bonus, and personnel systems are the most sensitive nerve, and they should be left untouched, arguing that if something goes wrong with them, social stability will be disrupted. It must be said that there is some truth in the worry. Because the practice of "everybody eating from the same big pot" has been pursued for several decades, and cadres are used to the "iron armchair [guaranteed rank]" and employees to the "ironclad wage," therefore, it is really no easy job to change all these practices overnight. But on no account does this mean that they cannot be reformed. Shanghai's "si mi ke [3402 4717 0344]" phenomenon, which had caused a sensation throughout the country, Harbin's "ha sai [0761 6357]" phenomenon, and many other facts have proved that this kind of reform is not only necessary but also completely feasible. What is of crucial importance in this regard is that enterprises should enhance their awareness of self-transformation.

First of all, they should gain a better understanding of reforming the recruitment, distribution, and personnel systems. The three old systems stifled enterprises' vitality and dampened employees' enthusiasm. Currently, efficient, profit-making enterprises are relatively enthusiastic in deepening reform and able to solve contradictions arising in production, but inefficient, particularly loss-making, enterprises are unwilling to deepen reform with enthusiasm. This is mainly because in the enterprises heavily beset with difficulties and loss-making enterprises, the more fully the various contradictions and drawbacks of the old structure are exposed, the less appealing the enterprises' leading bodies will be. Since the enterprises' ability to withstand the strains of reform is limited and ideological laxity prevail among their employees, it is quite difficult for these enterprises to carry out reform. Nevertheless, because enterprises are heavily beset with difficulties, incurring losses, and even facing bankruptcy, among the vast numbers of cadres and employees, there is a desire for change and an internal dynamic force for reform. Therefore, efforts should be made to enhance the cohesiveness of the enterprises' cadres and employees through powerful political and ideological work, so that cadres and employees will realize that only when a resolve is made to conduct reform with vigor can the enterprises get out of the dilemma and their employees get substantial benefits. The earlier reform is conducted, the earlier employees will benefit. Missing an opportunity because of a delay will mean nothing but resigning oneself to

death. The reform practice of some large and medium state-run enterprises across the country and in our city has proved that after reform was introduced, the mental outlook of cadres and employees of enterprises, be they profit-making or loss-making, has undergone a great change. Tangible changes have also taken place in their enthusiasm and sense of responsibility toward work and their labor discipline. Enterprise efficiency has also considerably improved.

It must be made clear that doing away with the three old systems is just a means rather than an objective. We want to establish a set of effective enterprise operation mechanisms with the smashing of the three old systems as the breakthrough point to bring cadre and employee enthusiasm and creativity into the fullest play. The thinking guiding the reform of the recruitment, distribution, and personnel systems must be: Doing away with the "iron armchair" and determining cadre employment and dismissal and promotion and demotion by actual work performance; doing away with the "ironclad wage" and determining employee wages by enterprise efficiency; and doing away with the "iron ricebowl" and determining employee work posts by the efficiency of their skills. This year, 31,000 employees from 25 large and medium state-run enterprises in Harbin City got involved in reform experiments. The city government worked out specific plans for experiments in carrying out comprehensive, supporting reforms in the personnel, labor, wage distribution, and social security systems of the city's state-run enterprises. Cadres and employees of pilot enterprises practiced an all-personnel contract system. In internal enterprise departments, demarcation lines between cadres and employees in recruitment terms and between employees under different ownership systems were abolished. In the wage system, the pilot enterprises practiced a wage system based on jobs and skills under which the wage of employees was composed of three elements including skills pay, job (position) pay, and supplementary pay, of which skills pay and job pay are called skills wages as a whole, which belong to the basic wage. An engagement system was introduced among cadres. Experiments in this aspect have produced good initial results.

At present, China's social security system is quite imperfect. The society's unemployment security ability is limited. Particularly since the social security system reform involves deep-rooted problems accumulated in the last several decades and conditions differ from locality to locality and from enterprise to enterprise, we should not act with undue haste in reforming the three old systems. We should persist in proceeding from actual conditions and make active efforts to carry out experiments in reform. The reform can be conducted by stages under specific guidance. When it comes to loss-making enterprises or enterprises heavily beset with difficulties, we should adopt a one-enterprise, one-solution method, start reform in light of the characteristics and problems of specific enterprises, and conduct active experiments

in this regard. We should proceed from actual conditions and solve contradictions within the scope of enterprises as far as possible.

## **2. Promote Enterprise Technological Progress Stressing Technological Transformation**

Harbin City is an old industrial base to which "factories in the south were moved" during the early days of the founding of the People's Republic of China, a base built using state priority investment during the First Five-Year Plan. Of the city's large and medium state-run enterprises, 97 percent were built before the 1960's. As a result of long inadequacy in input, the enterprises' equipment is obsolete, their technology backward, and their products are aging. The large and medium enterprise equipment which has been in use for more than 30 years constitute 40 percent of their total equipment and the newness [xin du 2450 1653] coefficient of the fixed assets is 0.58, below the nation's average level and the levels of most cities enjoying provincial status in the state plan. The enterprises are seriously short of staying power for further development. Therefore, quickening the pace of technological transformation has become an extremely urgent task.

First, we should enhance large and medium state-run enterprises' sense of self-transformation. In the final analysis, market competition is competition in strength. "Taking advantage of the moment" may possibly bring some instant "successes," but this way of doing things will be eliminated ultimately by the market. Technological transformation is the main means to strengthen enterprises. In the activities of extensively and intensively propagating the notion of science and technology being primary productive forces, prominence should be given to propagating the necessity and urgency of technological transformation so that enterprises will realize that strengthening technological transformation is the only way of invigorating enterprises and achieving the goal of less input, more output and high efficiency, and that only when technological transformation is accelerated and the path of reproduction by intention is followed can enterprises gain staying power for continuous development and can the prestige of large and medium state-run enterprises be re-boosted. To strengthen guidance over the work, our city devoted great efforts to propagating and popularizing the experience of the Harbin Medical Group, which invested over 400 million yuan in 91 technological transformation and importation projects in the late period of the Sixth Five-Year Plan and during the Seventh Five-Year Plan. Every subordinate enterprise of the group imported technology from abroad and carried out technological transformation. Hence, the group developed vigorously as a whole. The group leaped to the position of one of the "four big clans" in China's medical industry from one of a lower middle level.

Second, we should determine products according to the market and determine technological transformation according to products to be produced. In recent years, in

reforming the urban economic system, China has taken a series of reform measures to expand the role of the market, thus gradually developing the market system and market mechanisms. As the scope of market regulation expands, a structural, limited buying market has thus gradually taken shape. In this situation, enterprise technological transformation must overcome blindness and minimize errors. Under the guidance of the industrial policy and in light of market demand, efforts should be made to select projects accurately. 1) Products should be determined according to the market. As market competition is getting increasingly acute, enterprises must study market trends with great concentration, accurately follow market developments, sharpen their ability to make advance forecasts of the changing market situation, and formulate a strategy for enterprise operation and development with product development as the center. 2) Transformation should be determined on the basis of products. After the direction of product development is set, it is necessary to find out the gap between the technology, equipment, and technological levels needed by product development on the one hand and existing conditions on the other and use it as the basis in working out plans for technological transformation. In carrying out technological transformation, we should make the focal points stand out and use limited funds where they are needed most according to need and possibility, and earnestly strive for practical results in such areas as reducing energy consumption, improving product quality, developing varieties, and raising labor productivity.

Third, technological transformation should be combined with work in other fields of technological progress. Enterprise technological progress includes technological development, importation, transformation, and mass technological innovation. To push technological transformation ahead, it is necessary to combine work closely with work in other fields. 1) Technological transformation should be combined with technological importation. In technological transformation, we should persist in starting from a higher level and void repetition of low levels and actively import and assimilate the relatively mature achievements of advanced foreign technology. Particularly when there are shortages in funds for technological transformation, we should actively probe ways of importing foreign capital and adopt many forms to carry out "grafting" transformations among old enterprises. 2) Technological transformation should be combined with scientific and technological development. Currently, in many enterprises, shortages in resources for scientific research and development have hindered the work of technological transformation. Therefore, enterprises should open up more avenues of endeavor, adopt various forms of combinations by factories and research institutes and by factories and schools, and promote their own technological transformation by the help of the development achievements of scientific research units and higher-learning institutions. The new high-tech industrial development set up by our city has

created the condition for integrating science and technology with the economy and transforming traditional industries using new high technology, in particular, microelectronic technology. Large and medium enterprises must seize this opportunity, develop a batch of new high-tech products able to generate returns, and devote special efforts to manufacturing exclusive products. 3) Technological transformation should be combined with mass technological innovation activities. The successful experiences of many enterprises at home and abroad have proved that technological transformation does not necessarily need big input. Enterprises should devote their efforts to carrying out small-scaled innovations and conducting activities of offering rationalization proposals among employees. This is our fine tradition and also a good form of stimulating employees' sense of being the master of their enterprises. So long as the work is organized well, it will require less investment while producing quick results.

### **3. Strengthen Enterprise Management, Beginning With Groundwork**

Thanks to the enterprise consolidation carried out during the Sixth Five-Year Plan and the enterprise upgrading carried out during the Seventh Five-Year Plan, there has been a marked improvement in the management level of large and medium state-run enterprises in Harbin City, but there is still a fairly wide gap between their management and the requirements of modern and scientific management. Particularly, as reform keeps on deepening, in the face of sharp market competition, further improving and strengthening enterprise management and raising management level has become increasingly urgent and important.

First, factories should be managed strictly on the basis of democratic management. At present, lax management is relatively pronounced in some large and medium state-run enterprises. Problems concerning quality and accidents in production in the enterprises are, more often than not, caused by a lack of strict management rather than the soundness of equipment and technology. Therefore, it is necessary to bring employee enthusiasm into full play, augment the position of employees as masters of their enterprises, and rely on them in strengthening enterprise management. Only with the support and participation of the vast numbers of employees can enterprise reform measures and development strategies be realized. Therefore, at present, it is necessary both to further establish and improve various rules and regulations and standardize all the links of enterprises with rules and regulations and to teach the vast numbers of cadres and employees to act according to rules and regulations every day. Cadres should assess workers and on the other hand, the latter should do the same with the former. Naturally, the key to managing factories strictly lies in enterprise leadership. Factory directors should have the courage and daring to manage, deal with tough problems, ensure that regulations are observed, regulations-breakers dealt with, and rewards and punishments



strict and fair, and persist in carrying out this work unremittingly and perseveringly.

Second, efforts should be made to improve quality and reduce cost. According to statistics, currently, the superior and grade-A products of China's key industrial enterprises, combined together, constitute less than 35 percent of such enterprises' total products, and the annual loss rate of undesired products they turn out is about 10 percent of output value. Calculated on this basis, China will suffer a loss of 200 billion yuan a year due to the problem of product quality. Therefore, enterprise management should focus on improving product quality. Currently, enterprises should further enhance their awareness on quality and firmly foster the concept of "quality being the life of an enterprise," establish a quality guarantee system and exercise overall quality control, enforce technological management and tighten control over working procedures, enforce quality supervision and quality checks, practice quality cost management, link employees' political honor and material interests with product, service, and work performance quality, and enable quality indexes to have veto power over employee wages, bonuses, and other matters.

Devoting great efforts to reducing cost is an important way of improving enterprises' economic results. Financial management with cost accounting as the center should be strengthened and product costs reduced. According to calculations, every one percentage-point drop in the comparable total cost of industrial enterprises within the state budget in Harbin City will add more than 37 million yuan in economic results. It can thus be seen that enterprises have very great potentialities in improving economic results. Efforts should be made to conscientiously implement the "Regulations Concerning Cost Management of State-Run Enterprises" and related policy stipulations, establish a strict financial management system, pursue a "one pen" examination and approval responsibility system, and put spending under strict control. At the same time, efforts should also be made to establish a strict acceptance, withdrawal, and storage responsibility system in the links ranging from procurement, storage, and utilization of raw and semifinished materials, assess the volume of material objects consumed per unit, and strive to minimize production cost.

The building of leading bodies and contingents should be strengthened. A successful enterprise must have a contingent of personnel who are really up to the mark ideologically, professionally, technically, and in work style. In the contingent, the quality of the enterprise leading body plays a decisive role. The quality of the enterprise employees is the foundation of its internal quality. Currently, enterprise reform has entered the stage of storming fortifications and is facing a series of difficult problems never seen before. In this situation, enterprise leading bodies should dare to break through, to conduct experiments, and to make policy decisions, make breakthroughs in areas such as reforming the

recruitment, distribution, and personnel systems, experiment with the shareholding system, import advanced enterprise managerial expertise from abroad, and accumulate experience and raise their management level while breaking through.

The core of strengthening the building of the contingent of employees is improvement of the quality of all employees, including cadres, engineers, and technicians. It is necessary to train and build up a contingent of employees who are ideologically and technically sound and able to share weal and woe with their enterprises by effective means, such as strengthening ideological and political work and giving better job completion training to the personnel of various types and at all levels. With this contingent, enterprises can swiftly transform science and technology as well as modern management into practical productive forces and the leading role of large and medium state-run enterprises in economic development can be brought into better play.

#### **Individual's Share of National Income Grows**

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[Article by Zheng Linming (6774 1670 2494) and Bao Feng (7657 2600), edited by An Luming (1344 6424 2494): "The Trend of Persistently Increasing the Individual's Share of National Income"]

[Text] Whether compared with the national income's (or GNP) growth scale, or compared with the targets of the various labor productivity rates, or taking into consideration the objective demands of income distribution in the current national economy development level, in the whole of the 1980's, distribution of China's national income, for a prolonged period of time and in a sustained manner, tended to lean toward the individual, exceeded the character of paying off a "past debt," seriously deviated from rationality, and actually became irrational.

#### **I. Five Special Features of Distribution of National Income Leaning Toward the Individual**

Over the past several years following changes in the economic operational mechanism and the interplay of functions of various factors, the process of leaning toward the individual in the distribution of China's national income has shown, and is still showing, several special features:

First, distribution of the national income has for a prolonged period, and persistently, leaned toward the individual.

Taking national income in the broad sense,—the GNP as the gross distribution volume and computation basis,—utilizing the various existing statistical materials, and deducting the redundant and interrelated portions of the incomes of the state, enterprise, and individual, we have found the conditions of changes in the percentages of the



end income of the three parties concerned for 11 years as seen in the appended table at the end of this article. (Footnote 1: According to computation and estimation made on the basis of data on the "Sources and Distribution of Social Commodity Purchasing Power" found in the *China Statistical Yearbook* and *Commercial Statistical Yearbook*, 1990 was taken as the year of forecast and estimated value. The concrete formula was:

Resident's end income subject to his disposal = total amount of monetary net income of peasant and non-peasant residents + income of goods in kind of non-peasant residents + value of self-supplied products of peasant residents.

State's end income subject to its disposal = state budgetary income + funds outside financial budgets of localities + funds outside budgets of administrative and enterprise units - (price subsidies + income from domestic loans + salaries and wages of staff members and workers of organizational and enterprise units + spot monetary transfer payments to urban and rural residents.)

Enterprise's end income subject to its disposal = GNP - (end income of individual residents subject to their disposal + state's end income subject to its disposal).

From the table it can be clearly seen that over 11 years the distribution volume of the GNP received by the state and the enterprises has been basically on the downturn for a prolonged time and consistently while the portion of the resident individual's income has been rising consistently. Comparing 1990 with 1980, the end income at the state's disposal dropped from 21.7 percent to 14.03 percent, the scale of the fall being 7.67 percent; in the case of the enterprises, the fall was from 30.71 percent to 17.34 percent, the extent of the fall being 13.37 percent; whereas in the case of the resident individual, there was an increase from 47.53 percent to 68.63 percent, a rise of 21.1 percent. This state of affairs was not affected by the policy measure introduced at the end of 1988 aiming at treatment of the economy, consolidation, and retrenchment. In 1990, GNP growth was 5 percent, growth of the output value of industry owned by the whole people was 2.9 percent, the rise in the general level of retail sales prices in the country was only 2.1 percent, but the total volume of salaries and wages paid to staff members and workers of units owned by the whole people increased 13.4 percent and the actual average increase in wages was 10.6 percent. At the same time, there were prevalent phenomena of a great portion of collective consumption being devoted to the individual. There was great spending of public money on festival occasions, tours at public expense, and enterprise units disbursing money and materials to individuals; and there was evidence of distribution of national income further leaning toward the individual.

Second, national income distribution increasingly leaned toward the individual.

Seen from the stage of development prior to 1984, peasants' income had increased at a high speed. From

1981 to 1984, the average yearly growth in end income at the peasants' disposal was 17.6 percent while that of nonpeasants was 12 percent, the former being 5.6 percent higher than the latter. Changes occurred after 1985, and the nonpeasant residents' income increased at a high speed. From 1985 to 1989, the end income at the disposal of nonpeasants averaged a yearly increase of 21 percent while that of peasants averaged a yearly increase of 17.1 percent. The former thus exceeded the latter by 3.9 percent. In other words, in the past 10 years, the peasants' income was high at first and low afterwards but it was the reverse in the case of the nonfarming residents' incomes.

Seen from the angle of the total volume and increased volume of the GNP, from 1981 to 1989, the average annual increase in the end income at the disposal of nonpeasant residents was 18.7 percent whereas that of the peasants was 18.3 percent, the former surpassing the latter by 0.4 percent. But seen from the distribution of the GNP's increased volume, the situation was greatly different. From 1982 to 1989, the distribution rate of marginal income of nonfarming residents (that is, out of each 100-yuan increase in end income which the residents can dispose of, the ratio occupied by nonfarming residents or peasants in end income that they can dispose of) sharply increased from 27.1 percent to 65.4 percent, whereas in the peasants' case, it dropped from 70.5 percent to 34.5 percent. Particularly in 1989, due to the effects of treatment and consolidation of the economy, the distribution rate of nonfarming residents' marginal income sharply rose from 39.2 percent in 1988 to 65.4 percent, a rise of 26 percent, whereas in the case of the peasants the decrease was fairly large. In other words, following the increase in the end income that can be disposed of by the urban residents, the proportion occupied by the nonfarming residents became increasingly large, whereas in the peasants' case the proportion was increasingly small.

Seen from the difference between the income of urban and rural residents, it is found that after a shortening of the disparity for a while, it has become large again. The disparity between the incomes of urban and rural residents in 1981 was 1:0.45 (base figure one being the income of urban residents); in 1984 the disparity was reduced to 1:0.54; in 1988, it was enlarged to 1:0.43 and was further enlarged in 1989. Enlargements of the disparity between the income of urban and rural residents was not principally due to reduction in the scale of increase of the peasants' income but was caused by the more rapid increase in recent years in the urban residents' income.

Third, distribution of national income leaning too much to income outside regular salaries and wages of urban residents. Statistics show from 1980 to 1989, the total volume of actual salaries and wages of staff members and workers averaged a yearly progressive increase of 6 percent, lower in speed than the GNP's average yearly

growth rate of 9.3 percent; the average yearly progressive increase in actual salaries and wages of staff members and workers was 2.7 percent, lower than the increase speed of 5.9 percent in the average yearly progressive increase rate of the social labor productivity rate. Hence seen as a whole, the speed of increase in the salaries and wages of staff members and workers was basically in coordination with the speed of the growth of the economy. But the problem was that urban staff members and workers, over and above their regular salaries and wages, have obtained too much cash and goods in kind from inside and outside the organizational units and that growth of income outside the realm of regular salaries and wages was much too fast. This was mainly shown in the following:

—In the case of urban staff members and workers, the proportion of their extra income outside regular salaries and wages rose while the proportion of regular salaries and wages fell. From 1982 to 1989, the ratio occupied by the total volume of salaries and wages of urban staff members and workers in the monetary income which the urban residents could dispose of (principally including income from salaries and wages and income outside salaries and wages) dropped from 74.9 percent to 55.9 percent, a fall of 19 percent. This was mainly due to that income outside the regular salaries and wages of staff members and workers increased more rapidly than regular salaries and wages. (Footnote 2: Computed according to "Table on Balancing of Monetary Receipts and Expenditures of Residents (Nonpeasants)," not including income in form of goods in kind and concealed income received by urban staff members and workers from inside or outside their units, found in *Yearbook on Commercial Statistics*.)

—The growth speed of income outside regular salaries and wages of urban staff members and workers has been much faster than that of their regular salaries and wages. Calculated according to the current year's prices, from 1982 to 1989, the average yearly growth speed of regular salaries and wages of urban staff members and workers was 16.8 percent, far lower than the average yearly growth speed of 23.3 percent in other monetary income received by urban staff members and workers from their organizational units during the same period and also much lower than the yearly average growth speed of 22.9 percent in other monetary incomes received by urban residents.

In China, the composition of income outside regular salaries and wages of urban staff members and workers is principally in three parts: 1. labor insurance welfare expenses paid to the individual staff member or worker; 2. other income received by staff members and workers from inside and outside their organizational units outside of the total volume of salaries and wages; and 3. income from assets holding.

1. A broad understanding of the labor protection welfare expenses paid to the individual staff member or worker

principally refers to the various kinds of labor insurance, protectional devices, consumption subsidies and subsidy systems organized for the staff members and workers by enterprises, business units, and government organs. Of their contents, some have been included in the statistics while some have not. Principally included in the statistics are the labor protection welfare expenses of staff members and workers and labor protection welfare expenses of retired or separated staff members and workers. The staff welfare insurance premiums embraced by the statistics amounted to 25.36 billion yuan in 1982, equivalent to 28.7 percent of the total volume of salaries and wages paid to staff members and workers that year. In 1989, the amount was 115.6 billion yuan, equivalent to 43.9 percent of the total volume of salaries and wages paid to staff members and workers that year. This was an increase of 354 percent, an average yearly increase of 24 percent, and was higher by 7.2 percent than the average growth speed of 16.8 percent in the total volume of salaries and wages paid to staff members and workers during the same period.

2. Outside of regular salaries and wages and welfare insurance funds, other incomes received by staff members and workers from inside and/or outside their organizational units principally consist of income from a second or concurrent job, fees for writing magazine or newspaper articles, lecture fees, advisory fees, and fees for various other kinds of work. In 1982, these various incomes, plus income from assets or property holding of staff members and workers (such as interest receipts from bank deposits, bond interest receipts, and income from ownership of stocks and shares) amounted to 15.7 billion yuan, equivalent to 17.8 percent of the total volume of salaries and wages paid to staff members and workers that year; in 1989, the amount was 70.3 billion yuan, equivalent to 26.7 percent of the total amount of salaries and wages paid to staff members and workers that year. In 1982, the combined amount of the three kinds of extra income outside their regular salaries and wages of staff members and workers was 41.06 billion yuan, equivalent to 46.5 percent of the total volume of salaries and wages paid to staff members and workers that year. In 1989, the amount was 185.36 billion yuan, equivalent to 70.8 percent of the total volume of salaries and wages that year. This was 450 percent of the amount of 1982 and the average yearly growth rate was 24 percent (above figures of extra income of staff members and workers were computed on a "minimal" basis).

Aside from the above-mentioned extra income which can be found in the statistics, those not embraced in the statistics consist of the following four categories: cheap house rentals; low charges for water, electric power, and gas; goods in kind occasionally granted by units on various pretexts; and individual consumption items in social group purchases. (Footnote 3: See article by Guo Zhuqing and others: "China's Staff Welfare Expenses and Their Effects on Distribution of National Income," in REFERENCE MATERIALS, No 8, 1990, published by the State Planning Commission Economic Research

Center). In this connection, the situation is: If house rental is rationally computed, then the rental subsidies for the whole country amounted to 15.06 billion yuan in 1982, 27.5 billion yuan in 1987 and over 36 billion yuan in 1989; it is difficult to estimate the subsidies on low charges for water, electric power, and gas and hence no attempt will be made to offer an estimate here; goods in kind (Footnote 4: See "Condition of Goods in Kind for Household Use Received in 1990 by China's Urban Residents," in STATISTICAL MATERIALS, No 67, 1991, published by the State Statistical Bureau) received by urban residents in the past two years from organizational units were equivalent in value to 10 percent of the total volume of salaries and wages of the current year, amounting to nearly 26.2 billion yuan; the portion for individual consumption in social group purchases, estimated at 10 percent of the total volume of retail sales of consumer goods in social group purchases, amounted to 2.57 billion yuan in 1982 and 6.98 billion yuan in 1989.

Thus, adding together income outside regular salaries and wages of staff members and workers included in the statistics and those not so included, in 1982 the total amount was 58.69 billion yuan, equivalent to 66.5 percent of the total amount of payroll of that year while in 1989, the total amount was 254.54 billion yuan, equivalent to 97.2 percent of the total amount of payroll that year, an increase of over 30 percent.

It should be pointed out that the various items above, be they statistical materials, typical surveys, or mere estimates, were generally made on a low-value basis and that the real figures were much higher. There were and are many kinds of extra income outside the staff's regular payroll, the channels available were many and complicated, their secret nature was strong, and quite a lot of them were of a "greyish" or illegitimate character. In any case, the general concept is that the various kinds of extra income now being obtained by staff members and workers in cities and towns (including monetary income and income in goods in kind) is equivalent to 70 percent (on a minimal basis) to 100 percent (on a maximum basis) of the total amount of payroll of staff members and workers. This helps us solve the mystery of why for many years while the average yearly increase of the payroll for staff members and workers was only a little over 10 percent, the average yearly growth rate of urban residents' savings deposits reached 30-40 percent. The answer is: The basic cause is the too rapid increase in the extra income outside the regular payroll of the staff members and workers.

The above-mentioned condition also explains a problem like the following: If the income from salaries and wages and incomes of a nonsalary and nonwage nature are summed up, the income distribution composition formed by people under employment and people receiving income will have to be arranged and compiled anew. According to the results of a survey sent to 31,691 people sampled by the unit on studying the question of "income distribution of urban and rural residents in

China" of the China Academy of Social Sciences Economic Research Bureau (Footnote 5: See "Income Distribution of Urban and Rural Residents in China," TEACHING AND LEARNING MATERIALS FOR ECONOMIC WORKERS, Nos 1, 2, 1991), on summing up the four kinds of income of urban residents (monetary income of a compensatory nature, monetary income and income of goods in kind of a subsidized nature, public expense and low-priced consumer goods subsidies, and income from assets holding or of a transferable nature, and other forms of income), the order of arrangement of yearly income from high to low of different status of people under employment or receiving income is as follows: employees of units under the system of ownership by the whole people at the central government and provincial government level, employees of other units under the system of ownership by the whole people, employees of units under the system of collective ownership, employees of individual economy and private economy, employees of units under other systems of ownership, separated and retired personnel, and other personnel. Hence, simply looking at income from salaries and wages is not sufficient.

Fourth, coexistence of egalitarianism and unjust distribution. Measured with the "Gini Coefficient" target used internationally to reflect the nonegalitarian state of the resident's income, a coefficient of below 0.20 is recognized as being highly egalitarian. In 1981, the "Gini coefficient" of the income of China's urban residents was 0.16; in 1984 it was 0.19, and in 1988 it was 0.30. This shows that since 1981 there was a definite degree of widening income disparity among China's urban residents, but "egalitarianization" was still fairly general in existence. This was principally manifested by the fact that between the staff members and workers in the internal portion of the publicly owned and planned controlled economies, no rational disparity was in evidence.

The nonegalitarian degree of peasants' income was higher than that of urban residents. In 1988, the "Gini coefficient" of peasants' income was 0.30, still lower than that in the majority of developing countries. Seen on a regional basis, the peasants' per capita net income in provinces showing the highest such income was equivalent to 200-300 percent of that in provinces showing the lowest such income. The disparity between the eastern and western regions was generally above 100 percent.

Concurrently with the large existence of egalitarianism in the income distribution of residents, the phenomenon of unjust distribution was also relatively outstanding. So-called unjust distribution principally refers to the excessive differences in the residents' income caused by unequal opportunities in competition, the state's imperfect measures of adjustment and control, and the irrational labor wage system. Its principal manifestations are: first, reverse state of income from mental labor and income from manual labor; second, great differences between the incomes of different economic constituents; third, irrational expansion of the distribution disparity

between the incomes of staff members and workers of industries and trades; fourth, extreme differences between the income of contractor or employer and staff members and workers of a portion of the enterprises; fifth, irrational disparity between the incomes of departmental units; and sixth, seriously unjust distribution of supplies of the welfare benefit type. All these problems have seriously twisted society's normal distribution relations. They have caused and are causing many bad results and passive effects.

Fifth, twisted distribution of national income and changing of leaning toward policy to leaning toward mechanism.

So-called leaning toward policy refers to the fact that in the distribution of national income, the government adheres to policy and tactics and in a planned manner carries out readjustment in a direction which is clear-cut, positive, and subject to control. Leaning of a mechanical nature is the opposite and refers to when the various economic main bodies, under a fixed mechanism, innately and not in accordance with man's wishes, change the shape of national income distribution, making it uncontrollable to a considerable degree.

At the end of the 1970's and the beginning of the 1980's, the central government adopted a series of reform measures aimed at stimulating the workers' positivism in production and operation, obtained many encouraging results, and the income of urban and rural residents was greatly increased. At that time, government, particularly the central government, still held relatively large power in the distribution of national income and the policy results were also relatively obvious. Unfortunately, the twin outgrowth of the original structure of the practices of haggling negotiations and the mechanism of weak budgetary control appeared in a new form, that is, the state lost its battle against the enterprise (collective), the enterprise lost its battle against the individual, the policy of power-delegating and benefit ceding was extended to the extreme and new errors were made in the pattern of benefits distribution. This continuous rebirth and solidifying of a new benefit distribution pattern which takes on an internal mechanism as the basis and the current structure as protection have rendered useless any rectifying policy or measure of the state.

In the course of the evolution in income distribution from leaning to policy to leaning to mechanism, units under the system of ownership by the whole people, particularly state-owned enterprises, have assumed the status of being the fountainhead and central body.

1. On the side of distribution of profit retention. Since resumption in 1978 of the enterprise funds system, state enterprises have carried out reforms such as profit retention, tax in-lieu-of profits, contracted running of enterprises, and so forth. In each and every measure, the state was compelled to cede interest to a certain extent to enterprises in the distribution of income. The enterprise contracted operation responsibility system, which

began to be put in operation on a large scale in 1987, carried the special feature of greatly increasing interest-ceding. This formed a distribution pattern of a "progressive-retreat system," and in the increased portion when supplementing the base charges for contracted operation (in fact, generally such charges have already been greatly depressed in the negotiations between the state and the enterprise), the state's portion of the increased charges would be increasingly cut. Yet the result in the increase in profit retention on the enterprises' part was that the benefit was shifted to the workers through redistribution. In recent years, from the profit retention of state industrial enterprises, the ratio of funds retained for production development has been increasingly lowered while the ratios used for bonuses, encouragement, and staff welfare funds has become increasingly larger. In 1985, the proportion between the production development and welfare funds was 35.3:64.7 (the proportion prescribed by the state was 60:40); in 1986, the proportion dropped to 20.8:79.2; and in 1987, to 18.8:81.2. Under China's current structure, the relationship in distribution between the state and enterprises, generally speaking, is the same as the distribution relationship between the state and the individual worker. In ceding interest to enterprises by state finance, to a definite degree it is indirectly ceding interest in income to the individual worker.

2. On the side of salary and wage distribution. Since 1985, over 70 percent of state enterprises have carried out the measure of linking the total volume of salaries and wages with economic effects. The state prescribed that the ratio in the linking of work and effect should not exceed 1:0.3-0.7, that is, if the enterprise's delivery of profits or actually realized profits should increase by 1 percent the bonus on salary and wage should not exceed 0.3-0.7 percent, to prevent an excessive increase in the income of the enterprise's staff members and workers. But the result of actual enforcement has found that, in general, this policy-prescribed ratio was often exceeded. In 1985, the growth relationship between the state industrial enterprises' upward delivery of taxes and profits and the total volume of their salaries and wages was 1:0.73; in 1986, it was 1:1.015, in 1987, 1:1.12 and in 1988, 1:1.04 (Footnote 6: See article "Condition of Linking of Total Volume of Salaries and Wages and Economic Effects," by Pan Jinyun and Xu Haibo in REFERENCE MATERIALS ON THE EIGHTH FIVE-YEAR PLAN AND THE 10-YEAR PROGRAM," No 10, 1990, published by the State Planning Commission Economic Research Center). In reality, linking work and effect has manifested a staunch character: That when the enterprise's effects are improved, salaries and wages may be increased or more appropriations may be made to salaries and wages, but if the enterprise's effects should come down, it will be difficult to cut down salaries and wages.

3. On the side of income form rising prices. According to a concrete analysis by the State Council Development Research Center (Footnote 7: See article by Qiao Gang

and Zho Yusheng: "A Concrete Analysis of Distribution of Income From Rising Prices in Currency Inflation," *MATERIALS OF DEVELOPMENT RESEARCH CENTER OF STATE COUNCIL*, No 82, 1990), in 1987 and 1988, in the distribution of net income from rising prices, the losses suffered by state finance were larger than gains while the enterprises and workers enjoyed all the benefits. In enforcing contracted operation by the enterprises, excess income was divided on a percentile basis; of the differences resulting from the rise in prices exceeding the rise in cost of production, the greater portion was retained by the enterprises but when the rise in the price of products was lower than the rise in production costs, frequently the enterprises' losses were borne by state finance. Moreover, regarding depreciation of fixed assets of enterprises, no corresponding readjustment was made according to currency inflation. As a result, of the enterprises' profit retention, a portion was false profits converted from loss compensation fund. In the years 1984-88 alone, the difference between replacement and original costs of state-owned fixed assets in China already amounted to 386 billion yuan; and, on the average, each year of over 72 billion yuan of fixed assets, by far the greater portion was converted into false profits of the enterprises. Under the current structure, a considerable portion of net income from price rise drifts to the individual workers through various channels.

4. In the income distribution of administrative enterprise units, though governed by financial budgetary appropriations, the tendency of income distribution leaning toward the individual still exists more or less. From 1979 to 1989, the annual GNP growth was 14.7 percent, the average annual growth of financial income was 10.2 percent, the financial expenditures on administrative enterprise departments averaged an annual growth of 13.3 percent, while the average annual increase in the salaries and wages of staff members and workers of administrative enterprise departments was 16.9 percent. In other words, the state's cutting down of administrative enterprise departments' expenditures only affected the portion of public expenditures; the portion for individual employees was not affected at all. This was mainly caused by the over employment of personnel in these departmental organs. Besides, staff members and workers of administrative enterprise units also enjoyed in varying degrees welfare benefits and extra income outside their regular salaries and wages.

In the above analysis, there was no intention of showing that the resident individual's income outside of units under the system of ownership by the whole people was rational in all respects, but we meant to present the facts. The source of China's national income over-leaning to the individual should principally be ascribed to the current structure. Following the gradual weakening of the state's direct control over income distribution, no new innate balancing mechanism for income distribution has been correspondingly set up; in particular, following the break up of the balancing mechanism for income distribution of state enterprises, the factors

restricting the too rapid growth of income of the individual were too weak and as a result seeking the maximum increase of the individual's income has become the first and principal objective in enterprise operation. The excessive wishes to scramble for greater income arising therefrom on the part of various industries and trades, localities, and levels of society have increasingly weakened governments at various levels in their financial and budgetary control, thus continuously leaning toward the individual. At the same time, the widening of the difference between urban and rural income has compelled government and enterprise and even urban residents to cede a portion of their income to the peasants—this completes the cycle of national income leaning to the individual from leaning in policy to leaning in mechanism. The result is: In the total volume of national income subject to disposal, the resident individual's portion will be on an increasing scale.

## II. Trend and Selection

The above-mentioned five special features of distribution of national income leaning toward the individual will produce rather large effects on the trend of the pattern of national income distribution from now on. In the coming several years, there will be many unfavorable factors causing the over rapid growth of the individual's income. They are mainly the following:

—The irrational operational mechanism of state-owned enterprises cannot be effectively improved within a short time. The state has not yet discovered an effective enterprise operational and control form which can make the enterprises truly accomplish the feats of being solely responsible for their own profits and losses and effecting self-restriction and control. Since 1990, various localities and departments have performed a round of contracting work while the state has also expressed certain views against problems disclosed in the enforcement of the enterprise contracting system in the preceding several years, but in the implementation of these views, many problems still could not be solved. While the number of contracts concluded was high, really good contracting work done was little and effective measures were lacking on how to strengthen the enterprises' ability to become solely responsible for their profits and losses. As a result, the contradictions of contracting were still lurking (Footnote 8: See "Condition of Development and Progress of a New Round of Contracting of State-Owned Industrial Enterprises and Several Problems Worthy of Note," *FINANCIAL SHORT NOTES*, No 8, 1991). Thus, distribution of enterprises' net income was not subjected to strong market control, nor to strong administrative control and a new channel was opened up to the individual.

—Employment pressure causing a relatively large increase in the volume of salaries and wages. In the next 10 years, China will face employment pressure from a peasant surplus labor force of 100-120 million people and from a newly increased urban labor force

of some 70 million people. Since a high level of employment must be maintained and at the same time a definite rate of increase of per capita income or wage level must also be kept, it is inevitable that the total volume of residents' income and the total volume of salaries and wages will increase more rapidly.

- Continual increase in interest receipts from urban and rural savings deposits. From 1985 to 1990, the interest income from China's urban and rural residents' savings deposits generally occupied one-fourth of the GNP (computed according to the current year's prices). In other words, each year, around 25 percent of the newly increased GNP took the form of interest receipts on deposits to become the resident individuals' income. Besides, in recent years, the ratio occupied by interest receipts on savings deposits of urban residents in the current year's newly increased GNP has continuously risen. The ratios from 1986 to 1990 were respectively: 13.8 percent, 13.8 percent, 11.9 percent, 32.2 percent, and 39.2 percent. In the event of the GNP growth rate's slowing down, this ratio will be further increased.

Under such conditions we have three choices:

First choice: basically maintaining unchanged the existing distribution structure and policy measure, and distribution of the national income continuing to lean toward the individual.

If computation is made of the pattern of national income distribution in the Eighth Five-Year Plan period on the basis of the average yearly growth rate of the end income in the Seventh-Five Year Plan period of the state, enterprise, and resident individual respectively at 6.3, 10.9, and 14.4 percent, then by 1995 the state's portion in the distribution of the GNP will drop from the 14.03 percent in 1990 to 10.43 percent, the extent of the fall being 3.6 percent; the enterprises' portion will fall from 17.34 percent in 1990 to 15.93 percent, a fall of 1.41 percent; but the resident individual's portion will rise from 68.63 percent in 1990 to 73.64 percent, a rise of 5.01 percent. In other words, in the distribution of the GNP, both the state and enterprise will give way to the individual.

If this choice is made, then it will produce many serious results:

- National finance will face an increasingly heavy burden. If in the Eighth Five-Year Plan period, distribution of the national income should continue to lean toward the individual, then, computed on the basis of the above-mentioned pattern, in 1995, the ratio occupied by financial revenues in the GNP would drop to around 15 percent. On the other hand, in the Eighth Five-Year Plan period, China would reach the peak of repayment of external and internal loans. Each year, repayment of external loans would amount to \$7-8 billion while interest payment and principal repayment of internal loans each year would amount to 30 billion yuan. At the same time, readjustment of the

industrial structure and strengthening of the major units are necessarily connected with the basic industries and basic facilities which require huge amounts of funds and demand that state finance will be sufficiently sound and strong. Thus, the contradiction between financial receipts and expenditures would be sharpened, and readjusting the distribution relationship between the state and enterprise would necessarily involve the distribution of the individual worker's income. If the problem of the too fast growth of the individual's income is not solved, and if both state and workers infringe upon the enterprise's income, then there would be serious effects on enterprise development.

- Further weakening of the ability to make accumulations on the part of the enterprises. Their economic development increasingly lingers on the pedestal of a high plane of indebtedness and liabilities. In the enterprises' net output value, the ratios occupied by staff pay, bonus, and welfare benefits keep on increasing and the portion available for expanded reproduction will be gradually reduced. Even input into simple reproduction will be eroded. At present, the ratio occupied by residents' savings deposits in the various kinds of deposits and loans of banks and credit cooperatives are respectively 51.2 and 38.2 percent. In 1991, the balance of the residents' savings deposits amounted to 900 billion yuan and the ratio occupied by the increased volume of savings in the increased volume of various kinds of loans rose to 80 percent. At the same time, of the majority of enterprises, their ratio of self-owned circulating funds is very low and 80 percent of them depend on bank loans or other measures of raising funds to help supplement their circulating funds. On the side of fixed asset investments, funds from bank loans have occupied a ratio of 30-40 percent, or even more, and bank funds have been mainly resorted to in financing budget deficits, short term loans, issuance of treasury debentures and bonds, and so forth. By so doing, the entire national economy will increasingly step into a cycle like this: too fast an increase in the resident individual's income—relative increase in savings deposits—bank funds depending to a large degree on residents' saving deposits—loans to enterprises, loans to finance—bank loans being an increasing portion of funds of enterprises—burden of repaying principal and interest pay on bank loans daily increasing. The direct results of enterprise funds being built on high indebtedness: the government keeps on tightening and restricting the money market, losses due to enterprises suspending production or going into bankruptcy being borne by state banks, while residents sit idly and live on interest receipts. It may be said that such an economy is built on floating sand and the foundation is considerably weak. Besides, if this sort of economy of indebtedness which principally relies on the savings of residents, particularly a few large depositors, is allowed to continue to develop, there will be evil social and political consequences.

—Concealed danger of currency inflation still exists. With the residents' monetary income increasing too rapidly, the government's control over M (sum total of cash and current bank deposits) will be considerably difficult. If handled poorly, relatively serious currency inflation can easily develop. For the sake of stabilizing savings, the government must pay a price which in turn will affect the going on stage of certain reform measures.

Second choice: making certain readjustments on the current distribution structure, policy, and measures and basically stopping the trend of national income distribution leaning toward the individual.

If certain effective policy measures are taken to definitely ensure that the growth rate of the end income of the state, enterprise, and individual keeps the same pace with the GNP growth rate, then, by 1995, the pattern of national income distribution will be the same as now, there being no change at all.

The strong points of this choice are, on the one hand, that there is no over-dependence on pushing on the large-scale reform of the distribution structure, thus preventing to a definite degree social instability and disorder and, on the other hand, that it will be possible to rectify the trend of national income distribution leaning toward the individual and to, within an acceptable degree, promptly regulate the distribution relationship, thereby preparing the ground for further rationally readjusting the national income distribution pattern. Hence, it is strongly practical.

Third choice: greatly pushing reform of the distribution mechanism and related structure, and adopting effective policy measures to bring about the national income distribution pattern becoming basically rational.

At the present stage in China, there are principally two points determining whether or not the national income distribution pattern is rational: 1. That financial revenues should occupy over 25 percent of the national income (or around 22 percent of the GNP), and 2. that the growth speed of income subject to the disposal of the resident individual should be slightly lower than the growth speed of the GNP.

Based on this standard and estimating according to the prescribed average annual growth rate of the GNP at 6 percent under the Eighth Five-Year Plan, in the next several years, the state's end income should have an annual average growth rate of 11.4 percent, the average annual growth rate of the end income of the resident individual should be 4.5 percent, and the average annual growth rate of the end income of enterprises should be 6.8 percent. Only by so doing will it be possible that in the last period of the Eighth Five-Year Plan the state's portion in the GNP's distribution can rise to 18 percent, the enterprise's end income will rise to 18 percent, and the resident individual's income will fall to 64 percent.

This choice depends on the large-scale reform of the distribution structure and particularly on solving the problems of the cumulative decrease in financial revenues and erosion of profits by salaries and wages of staff members and workers. This is a measure treating the source and provides an important guarantee to the longterm sustained, stable, and coordinated development of China's national economy. However, in its implementation, due to too large a connection with readjustment of the interest relationship, it is entirely possible that strong opposition will be met with. When handling the many contradiction relationships, if strong determination and a fine technique are lacking, the problem may not be solved readily.

In our opinion, in the important decision-making affecting whether or not China's future economy can continue to develop in a healthy manner, we should strive to avoid taking the first choice, but should set foot on the second choice and devote active efforts to taking the third choice.

**Appended table: Ratios (percentages) in GNP occupied by end income subject to disposal of state, enterprise, and resident individual**

Year	State	Enterprise	Resident individual
1980	21.70	30.71	47.53
1981	19.80	27.61	52.53
1982	18.70	27.99	53.27
1983	19.83	26.88	53.32
1984	19.55	24.49	55.96
1985	20.00	21.90	58.10
1986	18.55	18.58	62.86
1987	16.49	21.12	62.39
1988	14.00	21.08	64.91
1989	13.97	22.41	63.62
1990	14.03	17.34	68.63

## PROVINCIAL

### Shenzhen Bolsters State Enterprises

HK0309035092 Beijing RENMIN RIBAO in Chinese  
28 Aug 92 p 1

[Dispatch by reporter Wang Zhu (3769 2806): "Shenzhen City Explores Ways To Ensure Growth of State-Owned Enterprises"]

[Text] Shenzhen, 26 Aug (RENMIN RIBAO)—In the midst of intense competition in a market economy, Shenzhen City has boldly explored ways to bolster state-owned enterprises and ensure the safety and growth of state-owned assets. This attempt has received widespread attention. Statistics from the 930 state-owned enterprises belonging to Shenzhen show that total assets



have reached 29.31 billion yuan and net assets (total assets less total liabilities) 7.35 billion yuan, an increase of 27.8 percent and 23.7 percent respectively over those of last year.

In July 1987, Shenzhen became the first in the country to set up a state-owned assets management company. It also separated the state assets management function from the government's social management functions and other ordinary economic management functions, turning over the management of state assets of enterprises to the state-owned assets management company. Later, Shenzhen gradually sent directors representing the assets into the city-owned state enterprises as it attempted to reform the system of managerial responsibility under the direction of a board of directors and the share holding system to promote the formation of a new model in state assets management. In particular, with the expansion in the experimentation of the board of directors and share holding systems, a new operational mechanism with the asset representative as the core, operators as the principal subjects, and party leadership as the guarantee or shareholders as the supervisors are being shaped up. Statistics from 14 enterprises with a sound system involving board of directors and more regular operations show that average realized profits in 1991 were 50 percent higher than those of 1990 and 25.5 percentage points higher than the average growth rates of city-owned enterprises around the city. Over the past four years, there were no major operational mishaps or asset losses, while the correction rate of policies reached some 80 percent.

The establishment of a survival-of-the-fittest mechanism in Shenzhen has boosted the reorganization and improvement of state-owned assets. Through the planned and measured process of promoting the transfer of property rights and mergers of enterprises, enterprises which have experienced years of improper management, liabilities higher than assets, and interest payments higher than profits underwent reorganization, mergers, and transfer of property rights. Since 1990, nearly 100 companies (shops) belonging to city-owned enterprises were either dissolved or merged, while 24 enterprises were allowed to undergo a transfer of property rights, with the total amount of assets involved in the transfers reaching 87.57 million yuan and 7.09 million Hong Kong dollars.

To ensure the safety and growth of state-owned assets, Shenzhen also took heed to strengthen the supervision and management of the process of managing the assets.

#### **24 Drug Criminals Executed in Guangxi 5 Aug**

*HK0409151992 Nanning GUANGXI RIBAO in Chinese  
6 Aug 92 p 1*

[Dispatch by reporter Zuo Shaoliang (1563 1421 5328) in Nanning and correspondent Yang Guochun (2799 0948 2504): "Twenty-Four Chief Drug Criminal Elements Executed in Guangxi"]

[Text] The regional antinarcotic sentencing rally was held in Nanning City stadium on the morning of 5 August. Twenty-four major drug criminals from 16 gangs were executed according to the law and 1.1 metric tons of drugs were destroyed in public.

This was Guangxi's biggest antinarcotic sentencing rally since the founding of the People's Republic. Above the rally area were hanging huge posters carrying such slogans as "Firmly crack down on drug offenses and safeguard the smooth progress of economic construction, reform, and opening up"; "All people move to action, root out drug perils, and make contributions now to benefit the coming generations throughout the ages"; "Drugs must be eliminated, drug traffickers must be punished, drug growers must be prosecuted, and drug abusers must give up." A total of 12,000 people from all walks of life in Nanning attended the sentencing rally.

The regional party and government leaders, including Lin Chaoqun [secretary of regional political science and law commission], Huang Jia, Wei Jisong [7279 4949 2646], Zhong Jiazuo, and Wei Ruilin attended the rally. Also present at the rally were relevant leaders of Guangxi Military District, Guangxi Armed Police Headquarters, the regional public security organ, the procuratorial organ, the people's court, the judicial organ, Nanning Prefecture, and Nanning City. Wei Jisong, vice chairman of the regional people's government and director of the regional antinarcotic committee, spoke at the rally.

At 0908, the armed policemen escorted 24 drug criminals into the rally area in 12 prison vans. The criminals, heads down, all looked ashen.

Huang Jianming [7806 1696 2494], vice president of the regional higher people's court, read out the court verdicts, enumerating the crimes of the drug offenders, and, in accordance with the death warrant signed by the presidents of the Supreme People's Court and the regional higher people's court, announced the decision to execute the 24 major drug criminals including Liu Fuming [0491 1381 2494]. At that point, the whole audience broke out into loud cheers, and many of them, their fists held high, shouted: "They deserve it! They deserve it!"

At 1008, in a corner of the stadium, raging flames shot up several yards high from 16 cauldrons simultaneously and 1.1-tonne drugs were destroyed in public.

Wei Jisong pointed out in his speech at the sentencing rally: The international drug trafficking groups carry out drug trafficking activities via our region and the criminals in our region, tempted by the staggering profits from drug offenses, recklessly participate in smuggling and drug trafficking. Their activities have caused the resurgence of drug perils, which were completely banned and eradicated after the founding of New China, and have seriously undermined the public's physical and mental health, poisoned the general mood of society, induced many other crimes, and seriously obstructed the smooth progress of our region's reform and opening up. Fighting



drug offenses not only has a bearing on public security, but also on such major issues as economic construction and the destiny of the nation. Wei Jisong issued a stern warning to those who are still engaged in drug offenses that they must give themselves up, make a clean break from their crimes, and stop self-destruction as soon as possible to try to receive clemency. Otherwise, they will come to a disgraceful end.

Wei Jisong stressed that Guangxi is situated in the forefront of the national antinarcotic campaign and to thoroughly eradicate drug offenses remains a very arduous task facing the people of the whole region. He expressed the hope that the people of all nationalities across the region will go into action vigorously, build an impregnable fortress of antinarcotic campaigning, and strive toward an overall victory in the campaign.

### Hebei Appoints New Family Planning Commission Chairman

SK0409141292 Shijiazhuang HEBEI RIBAO  
in Chinese 27 Aug 92 p 4

[Text] On 26 August, the 29th meeting of the Standing Committee of the seventh Hebei Provincial People's Congress approved a decision to appoint Liu Deyun [0491 1795 6663] as chairman of the Hebei Provincial Family Planning Commission and to dismiss Zhang Rui [1728 3843] as chairman.

### Liaoning Financial Work Conference Ends

SK0209122492 Shenyang Liaoning People's Radio  
Network in Mandarin 1030 GMT 1 Sep 92

[Text] At the provincial financial work conference that ended on 1 September, Zhang Rongmao, vice governor of the provincial government, pointed out that the financial departments at various levels across the province should vigorously deepen reform; expand the extent of reform; and find ways to reduce expenditures and subsidies, change functions, and open new financial resources.

Zhang Rongmao pointed out: There are only four months left this year. The provincial government urged all localities to fulfill or overfulfill the annual budgeted tasks, have the budget cover the refunds, and strive to reduce the refunds.

In his speech at the conference, Ji Yuying, director of the provincial financial department, pointed out: In the first seven months of this year, the province made 8.356 billion yuan in revenues, fulfilling 58.8 percent of the annual budgeted target. However, there were factors for reducing the revenues. That is, the provincial finance gave larger amounts of subsidies to grain enterprises to balance their deficits, and the enterprises carrying out the system of contract for total input and total output

paid taxes according to the previous fixed quotas. Therefore, we still have difficulties fulfilling the [words indistinct] target of reducing deficits and increasing profits. We should continue efforts to reduce deficits.

### Zhejiang Paper Urges Faster Economic Development

OW1108171792 Hangzhou ZHEJIANG RIBAO  
in Chinese 4 Aug 92 p 3

[Article by Wu Jianping (0702 1696 1627): "We Should Have a Vigorous Pace of Development"]

[Text] In his speeches made during a trip to the south, Comrade Deng Xiaoping proposed a brand new strategy, calling for seizing the opportune moment to accelerate development.

On 14 June, General Secretary Jiang Zemin stated at the Central Party School: "We should develop the national economy at a vigorous pace. A slow pace is not good, and a standstill is even worse." We should "seize the favorable opportunity, actively create conditions, and strive to advance at an even faster and more efficient pace; we should never overemphasize stability while letting the opportunity slip by." Comrade Deng Xiaoping's latest proposal for accelerating development has a vital bearing on China's reform, opening up, and economic construction and on its socialist undertaking; and it is of great practical importance and far-reaching historical significance.

### Strategic Importance of Speed

In the speeches, Comrade Deng Xiaoping discussed at length the issue of speed, and emphasized the need to seize the favorable opportunity to "speed up development in the next few years," to "take a leap," and to "push the economy to a new stage of development once every several years." He put forward this strategic demand after carefully considering the situation at home and abroad.

In the international arena, first of all, peace and development have formed the mainstream of the current global situation. The quickening pace of internationalization in world economic development—in production, technology, investment, and trade—has compelled the Chinese economy to join the general trend of internationalization in order not to be outpaced by other economies. Second, the dissolution of the Soviet Union has objectively provided a very precious vacuum in which to develop. Although hostile forces in the West are still bent on subjugating China, it will still take them some time and work to adjust to the disintegration of the former Soviet Union and adapt themselves to the drastic changes in Eastern Europe. Moreover, the reunification of Germany has prompted an accelerating pace of multipolarization and has tipped the balance of forces in the West. Third, this period of vacuum coincides with a historic opportunity for China. With a new round of economic readjustment going on in Western nations, a

vast international capital is looking for investment opportunities. Wherever there is a better investment environment and prospect for greater investment returns, more foreign investors will be attracted. At present, there are three major investment regions in the world—namely the Asia-Pacific region, the former Soviet Union and Eastern Europe, and Latin America. Of these three regions, the Asia-Pacific region (including China) has greater social stability, a stronger momentum for economic development, and a better investment environment; and this region should therefore be the most attractive to investors.

On the home front, China's reform and opening up has entered a new stage of development characterized, first of all, by major breakthroughs in theories on economic development. The series of theses on the initial stage of socialism, on the socialist commodity economy, and on productive forces as the criterion have put economic construction on a solid ground for developing the productive forces, making economic construction the central task of the entire nation. Second, China's enormous achievements in reform and opening up have formed an irreversible general trend. The country has seen earthshaking changes in the decade-long reform. Practice has proven that the line of "one center and two basic points summarized at the 13th CPC National Congress is correct," and that "some of our basic formulations, from development strategies to principles and policies—including reform and opening up—are correct." "Should there be anything that is inadequate, it is that not enough has been done in reform and opening." After more than three years of economic retrenchment, the conditions are now ripe for deepening reform. To accelerate development and "take a leap" under such circumstances conforms entirely with the wishes of the broad masses as well as the law of economic operations. It is an inevitable requirement for transition to the new stage.

It is precisely based on such a profound historical background and strategic insight that Comrade Deng Xiaoping has repeatedly emphasized the need to seize the opportune moment to accelerate reform, opening up, and economic construction and to boost the economy. Showing great foresight, he pointed out incisively: "At present, the economic development of some border countries and regions is faster than ours. Should we remain at a standstill or develop at a slow pace, there will be problems when people in the street begin to draw comparisons." The 1990's will be a crucial period, in which China's socialist system will undergo severe tests. The only way to establish a firm foothold in the international competition and in the duel between the two systems and to take the initiative to solve various contradictions is to quicken the pace of reform, opening up, and economic construction.

#### Understand Speed in Light of Reform

Some comrades have misgivings about accelerating the pace of economic development. They worry whether fast growth is good for the economy, and whether it will

cause pervading "low-level repetition" and lead to an overheated economy and inflation. Of course, their misgivings are not unfounded. With the old system continuing to play its role in certain areas, before substantial progress is made in separating government from enterprise functions and in the reform of firm budget restraints, there will probably remain a tendency for state-owned enterprises and government departments to compete for investments and projects and neglect long-term returns and there is the possibility of fast and inefficient growth. We should soberly assess such phenomena as launching excessive construction projects, having an overly large scale of construction projects, and irrational investments on fixed assets; however, we should also realize that these problems have been caused by an irrational economic system and contradictions in operating mechanisms. The only way to develop the economy in a faster and more efficient manner lies in deepening reform. As long as we thoroughly understand the essence of Comrade Deng Xiaoping's speeches, such misgivings are unwarranted.

First of all, in terms of the conditions for speed, we should not confuse the previous high growth induced by mandatory policies with the high speed resulting from the current reform to liberate the productive forces. Through more than a decade of reform and opening up, the highly centralized system of planning in economic management, which we had practiced for a long time, is being transformed into a system that combines planning with a market. More and more enterprises have been pushed toward the market, and market mechanisms have played an ever-growing role in national economic operations. In other words, the market mechanism restraints have been strengthened while the traditional system of relying on financial subsidies to push high economic growth has been weakened, thus effecting major changes in the mechanisms of China's economic growth. Moreover, the more than decade-long reform and opening up has also brought about fundamental changes in the distribution system of national income and the popular market concept. As a result, unlike what we did in the past, it is now difficult to push high growth with mandatory accumulation while stimulating low-price consumption with economic shortages and encouraging low-level duplication. In addition, through reform and opening up, numerous entities with the power to make decisions and invest have emerged as independent commodity producers and dealers, thereby increasing the options and limitations in investment. Under an open economy, it is difficult for enterprises to become market-oriented by rushing headlong into "low-level duplication." All these factors show that the conditions and environment that the "Great Leap Forward" and "Foreign Leap Forward"—all-out and aimless efforts to develop quickly without the preconditions—relied on, are gradually eroding. Therefore, we should not view today's pace in light of the mid-1980's.

Second, as a means of regulating speed, we should achieve a faster pace of development—which we stress

today—by intensifying reform and openness. To speed up the pace, we should primarily quicken the pace of reform and opening. Are there instances of repeating the previous path of blindly pursuing output value and extending the scale of capital construction? Of course there are; however, this beaten path has become narrower and more difficult because it is now constantly regulated by the government's industrial policy, overall control, economic levers, the economic system, and market demand. Practice has proven that reform measures can push enterprises and the national economy as a whole toward a deeper level of reform by means of upgrading technology, increasing high-quality new products, developing an export-oriented economy, and improving enterprise performance in a faster and more efficient way. The pace of development achieved through such measures is not risky and detrimental to the mechanisms of development as a whole. It is precisely based on such specific measures that we will be able to effect a number of fast and efficient stages in the modernization construction in the future.

#### Pursue Realistic High Growth

There are conditions for seizing opportunities to accelerate economic development. Imbued with the brilliant Marxist dialectics in discussing the issue of speed, Comrade Deng Xiaoping emphasized: "Where conditions permit, we should not impede but should accelerate development as fast as possible." Later he explicitly pointed out: "As long as a measure emphasizes quality, efficiency, and the development of an export-oriented economy, we can go ahead with the measure." Negligence of these three conditions will prevent us from achieving fast growth. Meanwhile, after calling for "pushing the Chinese economy to a new stage of development once every several years," Comrade Deng Xiaoping went on to say: "Of course, we do not encourage unrealistic fast growth, but an efficient, solid, stable, and coordinated pace of development." He has placed new tasks and demands as well as limitations on us. In understanding Comrade Deng Xiaoping's call for accelerating economic development, we must thoroughly understand its rich connotations. While accelerating economic development, we should speed up the readjustment of the economic structure, avoid duplicate construction projects, energetically promote tertiary industry, and raise economic efficiency to the benefit of a wholesome economic development cycle. We should also accelerate scientific and technological progress, step up technical transformation, and go all out to develop industries using high and new technology in a bid to take the lead in economic development. In short, we should be bolder, move faster, and make solid efforts in reform and opening up, structural readjustments, scientific and technological progress, and attain high efficiency so as to find a quick and efficient way to develop the economy.

## FINANCE, BANKING

### Zhou Xiaochuan, Yang Zhigang on Fiscal, Tax Reforms

92CE0611A Dalian CAIJING WENTI YANJIU  
[RESEARCH ON FINANCIAL AND ECONOMIC  
PROBLEMS] in Chinese No 7, 5 Jul 92 pp 6-12

[Article by Zhou Xiaochuan (0719 1420 1557) and Yang Zhigang (2799 0037 04740: "Several Assessments of China's Fiscal and Tax Reform Thinking")]

[Text] An overview of progress made in China's economic system reform show a gradual change from a traditional centrally planned economy to a planned commodity economy. A key element in economic system reform, fiscal and tax system reform means that instead of enterprises paying profits to the state, they pay a fair tax in a commodity economy of uniformly fair market competition. For local governments, fiscal and tax system reform means that their former functions in collating information on fulfillment of command-style plans for reporting to higher authority, and their breaking down of plans for assignment to lower levels will give way to a situation conducive to the development of a commodity economy in which enterprises make their own decisions, that emphasizes greater building of basic facilities, and that provides improved conditions for production and investment. For enterprises, it means that the state or units no longer control all employment, housing and social security. Instead, individuals assume responsibility for some of their own social security as the market system dictates, thereby enabling a normal labor mobility.

In recent years, China's fiscal and tax reforms, as well as its tax collection system, have undergone a process of change from the profit retention system to a two step substitution of tax payments for payment of profits and the subsequent enterprise contracting system. The fiscal system evolved from the system of dividing revenues and expenditures between the central and local governments, holding each responsible for balancing its own budget, to level by level contracting. It is noteworthy that though the tax retention system and the system of dividing revenues and expenditures between the central and local governments, holding each responsible for balancing its own budget, were unavoidable during the early period of reform, as reform moved ahead, available opportunities were not seized for further conversion to a system of economic division of authority and an attendant fiscal and tax system in a planned commodity economy having unified markets and equal competition. Instead, a fairly large number of jurisdictions held to the status quo, languishing in an administrative separation of authority characterized by excessive haggling that resulted in failure to find fundamental solution to some difficulties.

#### 1. On the Two Step Substitution of Tax Payments for the Surrendering of Profits

Reform of the tax collection system was one of the very first matters addressed in the reform of China's economy. Numerous accomplishments have been made in tax collection reform since the first step of substituting tax payments for the surrender of profits in 1983. However, owing to the wide applicability of tax collection reform, and its failure to keep pace with other reforms—particularly its lack of coordination with price reforms—as well as certain problems in the original configuration of reform, the initial goals of reform were not completely attained. This aroused controversy about this issue, thereby giving different views about the orientation and degree of tax reform, and even about reform per se.

The writers believe that the two step efforts to substitute tax payments for the surrendering of profits served to clarify the economic interest relationship between the state and enterprises through a fairly standardized tax system. Thus, it expanded enterprises' authority to make their own operating decisions, and created a commodity economy environment in which enterprises generally competed with each other. Distortions that hampered fair competition could be ameliorated through the transitional use of various kinds of taxes and different tax rates to impel enterprises toward early movement in the direction of a commodity economy. In this sense, the first step in the substitution of tax payments for the surrendering of profits was successful overall. Given the interrelationship between tax receipts and prices, the product taxes of the second stage in the substitution of tax payments for the surrender of profits served as a transitional arrangement during the transitional period of reform. Use of product taxes to moderate inequitable price factors was also tenable. Under the circumstances at the time, price reform required a process. The product price system during this period could serve to moderate price inequities. In addition, this function would gradually disappear as reform progressed. However, because of the lack of clarity in economic thought and the technical methods of those who designed the reform, the role of reform in moderating distortions never found full expression. Because product taxes as well as other kinds of taxes, including taxes on resources and taxes on fixed assets, were never levied, so many of the inequities among business concerns were not addressed. To remedy this shortfall as well as the unequal sharing of weal and woe among enterprises that resulted from other factors, for a long period of time adjustment taxes were subsequently put in place and maintained. This was a mistake made during the second step in substituting tax payments for the surrender of profits.

The most fundamental assessment of the two step substitution of tax payments for the surrender of profits is that China was unable to institute a standardized tax system for the collection of revenues, and thus it had to institute different kinds of contract systems as enterprises' specific circumstances warranted. Those who held this view maintained that although substitution of tax payments for the surrender of profits was a good one,

"results from practice show that inasmuch as circumstances vary and differences are substantial between one enterprise and another, sole reliance on 'substitution of tax payments for the surrender of profits' cannot serve as a 'starting line' for fair competition, ... although substitution of tax payments for the surrender of profits does not itself stipulate the form of enterprise reform, the establishment of this method of dividing up benefits adversely affects enterprise behavior. It plays a role in limiting the reform of enterprises' form of operation." (Footnote 1—Su Xiaodong [5685 1420 0392]: "The Contract System: Realities and Choices," JINGJI YANJIU [ECONOMIC RESEARCH], No 6, 1990) Still other people discredited the substitution of tax payments for surrendering of profits from the very beginning, maintaining that it "simply changed the form of centralized receipts and expenditures, with the only difference being that formerly 100 percent of net income was taken away, but now 90 percent is taken away." (Footnote 2—Yang Peixin [2799 1014 2450]: "Invigorating Enterprises and Readjusting Tax Burdens," SHIJIE JINGJI DAOBAO [WORLD ECONOMIC BULLETIN], 20 July 1987). Consequently, the two-step substitution of tax payments for the surrender of profits weakened enterprises' vitality and dampened their enthusiasm. It made their technological transformation difficult, thereby occasioning a 22 month slide in fiscal revenues." (Footnote 3—Yang Peixin: "On Maintaining and Perfecting the Enterprise Contract System," JINGJI YANJIU [ECONOMIC RESEARCH], No 3, 1990). It was generally felt that the effort to use standard tax revenues to create equal conditions had failed, and that institution of the contract system in 1987 demonstrated this failure.

This article disagrees with this view. First, it must be admitted that the two step substitution of tax payments for the surrender of profits contained certain conceptual flaws, and that its anticipated goals could not be realized. This was attributable to the level of understanding of economic theoreticians and policy-making units at that time, and to the capabilities of those who conceived the plan. Nevertheless, one cannot repudiate on this account the orientation toward standardization of revenue control and the building of freely competitive markets. This is a matter of how to understand the orientation of reform. One of the goals of reform is to optimize the allocation of resources and to build a new stimulus mechanism. Theory analysis shows that a fair and competitive market mechanism together with uniform, standardized regulatory measures can realize this goal. A certain pattern often exists in China's peculiarities. The elements of inequality inherited from the centrally planned economy are not entirely without laws that can be followed. A series of policy measures permits a greater or lesser evening out of competitive conditions for effecting standardized tax revenue control. In enterprises in which efficiency really is different, pressures must be brought to bear to make them change as quickly as possible, after which they can orient toward development in which they approximate each other in efficiency,

and in which only the fittest survive. Thus, the irrationalities that history has bequeathed positively must not become obstacles to a standardized tax system.

Yet another criticism of the two step substitution of tax payments for the surrender of profits is doubt as to whether revenues can partially ease price inequities. Some people, including some in fiscal and tax departments, believe that there is no need for a correlation between tax policy and price policy. Price inequities must be relieved through price reform; it is enough if the tax system simply concerns itself with its own inequities. The so-called coordinated price and tax reform plan can produce many headaches. Actually, taxes and prices have always been closely coordinated in various countries of the world. Except where tax rates for various products are different, products on which a commodity tax is levied may be double taxed, which is bound to have a marked effect on the ultimate product price structure. When the overall tax level is fairly high and differences are great, customs duties also have an extremely marked effect on the price structure. Customs duties may obviate the direct effects of international market prices on the domestic market, but at the same time they may cause a variance between domestic prices and international market prices for certain things such as motor vehicles and high quality consumer goods, thereby influencing the balance between domestic supply and demand. A consumption tax directly raises the sale price of certain commodities. These kinds of taxes have a substantial impact on the price system. One scenario that stems from this effect is for taxes to regulate the domestic prices of some products, with the result that they depart somewhat from the neutral balance point causing a change in the supply and demand equation. In another scenario, a transitional policy is put into effect during reform. For example, because inequities in the old price system have created an unequal sharing of weal and woe by enterprises, some easing of taxes must be employed in the course of orienting toward reforms in which enterprises are responsible for their own profits and losses. To suppose it is possible to circumvent the close correlation and the close coordination between taxes and prices is not objective.

During economic reform, the price system and the tax system are extremely closely linked. When the price system is highly inequitable, standardization of taxes to a high degree is simply impossible. Moreover, without readjustment and convergence in the indirect tax rate, neither can prices be truly rational. Today, when price reform has not yet been completed, it is difficult to use the contract system to solve price distortion and income distribution problems. Within certain limits, enterprises may themselves choose their own production and operating orientation today. Focusing on enterprises and areas instead of focusing on product adjustments cannot truly solve the problems that the price system occasions. Consequently, enterprises frequently haggle over price issues. Better regulation of products and industries requires greater

emphasis on the interdependence between price reform and tax reform, and it is also bound to require some fairly technically complex transitional policy work directed toward products or industries.

During substitution of tax payments for the surrender of profits, work on the product tax system at the time was sloppily conceived. There was no exchange of views with economists, and there was no marked improvement of techniques. As a result the reform could not effectively serve to moderate price inequities in an ideal way, so large scale use of adjustment taxes had to accompany the reform. However, this regulatory tax, which set a different rate for each household, actually amounted to penalizing the front-runners while failing to penalize the laggards, thereby arousing much criticism. However, one point that must be made clear is just where the problem lay at the time. Was it the result of poor understanding of the role of product taxes and regulatory taxes and shortcomings in devising the taxes (including policy orientation toward laggard enterprises), or was it that taxes simply should not be used to moderate price distortions? In addition, distortions in the economy were not entirely price related; they were also in the form of differences in the amount of state-owned assets, differences in the organization of the key elements of production, and differences in the use of natural resources, etc. A product tax could never completely solve the problem of enterprises' unequal sharing of weal and woe, and the lack of policies in other regards was also a reason regulatory taxes were used.

It is particularly noteworthy that the subsequent summarization of experiences did not result in attention being directed to the problem of levying regulatory taxes. Some comrades attributed the shortcomings of the two step substitution of tax payments for the surrender of profits to the coordination of tax and price functions. They felt that taxes should not be used to regulate prices, and that taxes simply could not do the job. By a similar logic, some people believed that taxes should also not be used to regulate either state-owned assets or efficiency from investment in them; thus, they encouraged the idea of a separation of taxes and profits. Theoretically speaking, the two different categories of taxes and profits should not be commingled; they must be kept separate. However, if this is done solely to pass along to other sectors for handling the varying amounts of enterprise after-tax profits, this is an expedient measure that acknowledges the distorted state of affairs.

## 2. Coordinated Reform and the Contract System

During the course of fiscal and tax system reform, there was the 1986 coordinated price, tax, and fiscal reform plan. This conception was oriented toward a commodity economy having a unified market and equal competition. Even though numerous difficulties existed in the realization of this process, and even though quite a few conventional ways of thinking favored an economy having an administrative division of powers; nevertheless, the overall conception in 1986 favored the use of

organized measures to accelerate movement toward this goal. The following ideas were proposed: 1) Price reform must do all possible to reduce the various distortions that depart from the relationship between supply and demand and an open economy; 2) simultaneous with price reform, tax reform must gradually reduce unnecessary product taxes, a shift made to a uniform added value tax; and 3) the main goal of fiscal reform is to redefine the limits between central government and local government authority so that local governments will no longer meddle in production enterprises that are responsible for their own profits and losses. They can concentrate on new functions. The conception also provided that until such time as prices became equitable, a small number of product taxes could play a definite role in easing price inequities; in the collection of low rate fees on fixed assets as a means of reducing inattention to returns when making investments in fixed assets; in the use of a resources tax to collect a lease differential on natural resources; in the use of a land fee as a means of promoting the conservation of land, and to collect a lease differential on different districts of cities. These transitional taxes were not necessarily ultimately equitable; nevertheless, they aimed in the direction of achieving a unified market and equal competition for enterprises of all kinds.

Generally speaking, these integrated reforms were efforts in the direction of a commodity economy and a separation of government administration and enterprise management. For various reasons, however, this course was not selected in the end. From the end of 1986, and particularly with the spread of the enterprise contract system during 1987, China's economy took on more a coloration of an administrative division of authority with haggling back and forth.

At the end of 1986, state-owned enterprises gradually began the vigorous promotion of the enterprise contract system in which the primary ingredient was the aforementioned payment of taxes and the surrender of profits to the state. The main ways in which this was done were as follows: "the contracting of two things with another thing linked," "progressive contracting of tax and profit payments," "contracting of the surrendered profit base figures, dividing up income above the base figure," "contracting of profit norms to be paid," and "contracting of losses." The all-out promotion of these various form of the contract system made the relationship between government and enterprises more complex. Since the set base figures were fairly low, the percentage from the distribution of profit that the state received declined very rapidly. In carrying out the contract system, in particular, contracting applied mostly to fat profits and taxes and not to skimpy ones. Earnings in excess of base figures of enterprises that fulfilled their contract quotas, the treasury returned to the enterprises that year, but when enterprises failed to fulfill their contracted quotas, they were charged to account, and government financial authorities were asked to provide reduction or exemption so the enterprises could continue

to pay wages and welfare benefits. Promotion of the enterprise contract system did not markedly result in the implementation of economic responsibility systems in enterprises, however. In fact, some enterprises even became more lax about technological transformation and quality control in consequence. In addition, instability in the external environment resulted in rigidity in contract goals that ensured no change for several years. Because of changes in the external environment, some enterprises easily fulfilled their contract goals, but some could not honor their's despite very great efforts.

Between 1988 and the present time, 37 provinces, autonomous regions, directly administered municipalities, and some municipalities listed under plan used the previously prescribed fiscal system as a foundation for beginning the "contracting of progressive increases in receipts and expenditures," "the division of the total sum," "division of the total sum plus a division of increases," "contracting of progressive increases in amounts surrendered to the state," "quota payments," "quota subsidies," and such different kinds of fiscal contracting methods. Furthermore, each of these provinces, autonomous regions and municipalities entered into an even more complex contracting system with governments at a lower level. These contracting methods were erratic, and they restricted and weakened budgets. Ultimately, they were manifested markedly in mutual encroachments on the part of the central government and local governments. Differences in contracting policies permitted local governments the opportunity to demand that the central government give way in the course of haggling one-on-one over matters of local government benefit. This brought about a year-after-year decline in the central government's revenues. For its part, the central government resorted to rigid directives and assessments under a multitude of names to recoup funds or to get hold of some local government funds. Alternatively, it simply "borrowed funds" from local governments. This mutual pushing and shoving, contracting and failing to live up to contracts existed among governments at all levels. In addition, the fiscal contracting system also steadily changed from the very time of its inception. Consequently, local governments and enterprises devoted even more efforts to haggling with higher level authority.

Inevitably, this administrative division of authority produced economic relationships characterized by haggling back and forth, although the degree of haggling varied. At the end of 1986 and during 1987, the amount of haggling in China's economy was substantial, and also a rarity in the world. Three relationships were the target of this haggling:

1. The central government and local governments. Since local governments have to be responsible for enterprises, have to provide them with various benefits, apply different policies to them, and determine different amounts of retained profits, naturally, they want to haggle with the central government to determine how they allocate financial resources, and what profits and losses they will

incur in budgeting receipts and expenditures. The relationship between the central government and local governments gradually became the extraordinarily complicated fiscal contracting system of 1988 and 1989. Since a system for the division of tax monies had not yet been adopted, the contract relationship between the central government and local governments concealed central government transfer payments to local governments. The central government financial authorities could not pay full attention to the categorization and summation of their transfer payments to deduce a pattern from them. Among the transfer payments were support for the building of basic facilities in backward areas; some were in the nature of assistance for basic welfare benefits and the nurture of manpower resources based on population percentage, and others were for key projects in long-range plans to be paid for in stages and in groups, such as railroads and river basin control projects. Since responsibility for budget expenditures had not been clearly defined, arguments back and forth between the central government and local governments ensued. No rules worth the name applied to their fiscal relationships.

2. The state and enterprises (including state-owned enterprises and some collective enterprises). An extremely large number of channels existed through which they could haggle with each other. On matters such as evaluating the supply of raw and processed materials, withholdings for depreciation, determination of product prices, investment in and importation of technology for technological transformation, import-export authority, and placement of the work force, they bargained with each other to one degree or another.

3. Prior to the time when China's economic system reform unconsciously devolved into this sort of economic bargaining relationship, it went through a period of trial and uncertainty during which major efforts were made in an effort to avoid such an institutional pitfall. During the early period of reform in 1981, consideration had been given to large scale price reform, and a center for the study of prices had been founded. At that time, when the former prime minister of Czechoslovakia, Josef Korcak, visited China, he recommended use of an input-output pricing model to make big strides in straightening out the price system. In 1984, the Third Plenary Session of the 12th Party Central Committee explicitly proposed that enterprises be independent economic entities, necessitating price reform. Nevertheless, the wavering continued, particularly at the end of 1984 when a dual track price system was favored that would put price system reform on an even more extended, more complex road. In 1986, and again in 1988, two efforts to reform prices were made, but they posed the threat of political instability in the first instance and economic instability in the other. In the fall of 1987, discussion began on how enterprises would conduct the first step of reform. Wavering between changing the state-owned enterprise ownership structure to joint-stock companies or instituting a contract system ensued, but ultimately the enterprise contract system was chosen. During the

summer of 1989 and the fall of 1990, thinking about the enterprise contracting system and local government financial contracting came to a halt, but without a decision being made. This period of wavering back and forth gradually shaped and intensified the previous haggling nature of the economy. As a result not only was it difficult to standardize fiscal and tax matters, but their regulatory roles were also relatively poor. Not only did taxes not provide the government with sufficient revenue, but their role seemed even more ineffective in making taxation fair, in regulating the economy and the distribution of income, in promoting a change to a commodity economy, and in fashioning a unified market. In addition, since the fiscal budget produced no relatively standardized methods, local governments at all levels still mostly "looked upward."

### *3. Thinking About the Separation of Taxes and Profits*

The separation of taxes and profits, after-tax repayment of loans, and after-tax contracting were all proposed at the same time in the wake of the contracting system. At the end of 1986, the idea for the industrial enterprise contract management responsibility system was formally proposed. In 1987, a substantial number of people in academic life predicted that the contract system would become a pain-filled road. In the short run, the contract system might improve certain aspects of the existing system, but it would actually pose very many difficulties for further reform, thereby occasioning new problems for an already rather distorted system. In this regard, those who approved the overall enterprise contract system reform idea additionally proposed the separation of taxes and profits, believing that this method might perfect the contract system in fundamental ways.

The main problems on which the idea for separating taxes and profits focused also included the shortcomings of the contract system that World Bank experts and some other experts pointed out, namely that the contract system encompassed tax payments to a very great extent, and some contracting even included indirect taxes as well. In many actual cases, income taxes became a matter for bargaining. Faced with this situation, some people proposed a moderate lowering of income tax rates, taxes and profits being separated thereafter. Indirect taxes should be paid in full and income taxes should also be paid in full at the lowered tax rate. Since a fair competition mechanism had not yet been generally established and a large number of inequities still existed, naturally no uniformly fair method for allocating remaining profits existed. All that could be done following the standardization of tax receipts was to have enterprises pay some profits to the State Administration of State Property or departments concerned, treating them as a bonus derived from previous state investment in fixed assets. In accordance with this line of thinking, taxes and profits would flow into the treasury via two different avenues. This was the separation of taxes and profits.

Some people both in China and abroad have a mistaken understanding of the separation of taxes and profits.



Foreigners simplistically translate the separation of profits and taxes as a separation of tax receipts and profits, without noting that following separation they flow into the treasury through different channels. In China too, quite a few people support the separation of taxes and profits only from the angle of separate tax receipt and profit categories. The key to the problem, however, is that unless various distortions in the economy are eliminated as quickly as possible, competitive conditions remaining unequal, a substantial portion of enterprises will be unable to carry on even following a lowering of the tax rate. Furthermore, profitable enterprises will still be able to haggle over just how much after-tax profit they have to pay the State Administration of State Property, and they will still want to contract. Consequently, thinking on the separation of taxes and profits is a continuation of contract system thinking; it cannot genuinely solve real problems.

A further examination also shows many areas wanting in the line of thinking that suggests that the contract system may be used to determine how much after-tax profit has to be paid to the State Administration of State Property. It must be recognized that a substantial number of uncertainties exist in the operation of enterprises, and that the profit level of enterprises is determined by various factors such as prices, new product development, and the market. Even in enterprises where the profit level is fairly high today, profits might decline were a fairly large number of enterprises to enter this line of work. Furthermore, advances in technology, the rapid updating of products, and more intense competition introduce very many imponderables into what actual future profits might be, some of which will not be determined by the enterprises themselves. In an uncertain environment, enterprises must still be able to continue to survive. Since other enterprises are able to readjust their structure and develop new products in an effort to survive, any given enterprise must also be able to survive as well through similar efforts. However, no matter what an enterprises's profit level was in the past, there is no certainty that it will be able to maintain that profit level in the future.

Enterprises are between a rock and a hard place today on depreciation and debt repayment problems. For government finance, a rise in depreciation rates means a fall in fiscal revenues. A rise in depreciation rates can increase production costs that causes a rise in ex-factory prices, thereby reducing an enterprise's income tax base. Nevertheless, enterprise income taxes still account for a marked percentage of government revenues, and government tax units pin much hope on this tax even though enterprise income taxes have steadily declined as a percentage of total revenues in recent years. On the other hand, when depreciation rates are relatively low (even with the collection of the "two funds"), if enterprises are to renovate and update their plant, other resources will have to be depended upon; consequently, some people support "pre-tax loan repayment." Enterprise pre-tax loan repayment has come under greater criticism from

the fiscal authorities and theoreticians. Some people maintain that the amount of pre-tax loan repayment has shot up swiftly to become a heavy national fiscal burden. It has caused, and is now intensifying, a loss of macro-economic control and an inflation of social demand leading to monetary and price fluctuations. This is to say, in effect, that pre-tax loan repayments likewise adversely affect fiscal revenues.

Whether enterprises should repay loans before or after taxes depends on the uses to which the loans are put. From the standpoint of the fiscal system, some loans should be repaid after taxes; however, loans for productive capital investment and for technological transformation should be permitted to be repaid (before taxes) by deducting a percentage of depreciation. This is because such funds are a necessary cost for the production of products. It is just that the period of their use is relatively long. For several years following capital formation, depreciation may be apportioned in stages for the period of depreciation and at the depreciation rate. The depreciation rate should be set as closely as possible to actual depreciation. It should genuinely reflect the general pattern of amortization of capital expense, and depreciation funds should also not be centralized by the central government or through other methods such as the "two funds." Therefore, deciding whether enterprise loans are to be paid before or after taxes depends on the purposes for which they are used, and further definition related to the depreciation system. For the sake of standardization, certain loans must be repaid after taxes as the only way of linking enterprises' responsibilities, rights, and interests. At the present time, enterprises have limited funds available for technological transformation and maintenance of their production capabilities. Unless enterprise depreciation rates are increased, and the way of using depreciation funds reformed, the after-tax repayment of loans will have a very great adverse impact on enterprises' operating capabilities and competitiveness. Furthermore, the definition of depreciation must more closely approximate the concept of proportional amortization over a period of time of business capital expenses. The use of depreciation funds to repay the principal on such capital loans, and listing such loans as a cost in accordance with depreciation regulations, the depreciation period, and the percentage of depreciation is normal and reasonable.

Is after-tax contracting necessary for the overwhelming majority of enterprises? If contracting is based on the extent of state-owned assets held, this makes a certain amount of sense, but if agreement is still reached through one-on-one haggling, since a basis is lacking and in the absence of a guiding principle, the need for after-tax contracting is very difficult to justify. In short, the issue of after-tax loan repayments remains to be clarified, and the necessity for after-tax contracting is not convincing. One might say that the idea of a separation of taxes and profits developed out of the contract system, and had as its goal the maintenance and improvement of the contract system. Thus, it is a flawed idea that approves distortions whose shortcomings are as follows:



1. The separation of taxes and profits line of thinking is a continuation of the contract system. In a situation in which equal policy benefits cannot be realized, it seeks to standardize tax revenues at a low level, but it does not concern itself with the standardization of arrangements for remaining post-income tax profits. However, very many problems exist in standardization of income taxes. For example, if the income tax rate is set fairly high when the existence of inequities is acknowledged, many enterprises are unable to make a profit and contract the payment of profits after taxes. If the income tax is set fairly low, a large quantity of contracting tasks are shifted to the State Administration for State Property, or to other forms of the ownership control system, thereby necessitating the continuation of haggling over contracting. Thus, in a situation in which various distortions are not straightened out, flaws in logic exist about the standardization of tax revenues. This has an air of self-deception.

2. Comrades who proposed the separation of taxes and profits did not fully consider the correction of existing distortions; thus, they too much emphasized the distribution of enterprise profits. Some people suggest that tax reform is not only for the purpose of straightening out relations between the state and enterprises, but is very largely for the purpose of increasing fiscal revenues, increasing fiscal revenues as a percentage of GNP. This thought makes a lot of sense. However, if one does not take into account the distortion of the enterprise cost-profit ratio, he will not know on which kinds of taxes he should devote efforts, thus giving rise to error. Excessive dependence on the separation of taxes and profits, focusing attention on income taxes and after-tax profits is an error in vision resulting from a distorted picture of the correlation between enterprises' costs and profits. Actually, indirect taxation and other forms of taxation still offer very great potential that can be exploited to solve the fiscal revenue problem.

3. The separation of profits and taxes idea has a certain departmental air. Tax units' are correct in their desire for standardization of tax revenues and for being able to ensure stability of state financial revenues. However, they must fully realize that tax revenues themselves are a powerful economic lever for spurring development of the commodity economy and for building a competition mechanism. In these terms, the tax system has an unshirkable responsibility in spurring reform. To a certain extent, the line of thinking that the separation of taxes and profits represents acknowledges the present existence of inequities and haggling; it is just that it wants to push off on the State Administration for State Property and other units in charge the haggling that the inequities cause. No giving way on indirect taxation, and the setting of the enterprise income tax at around 33 percent, all equally affected, is standardization in the collection and control of tax revenues. As for other troublesome matters such as whether fees should be collected on fixed assets, how to solve land leasing differences, how to ease inequitable prices, how to

handle unequal enterprise welfare benefits and pension funds, etc. are all problems that are pushed off on other government agencies, letting them haggle about them with enterprises one-on-one in contract negotiations. Actually, for the State Administration on State Property and other owner management systems, including local government industrial management bureaus, these problems are a bitter pill to swallow. First, much about them is arbitrary and, second, they are a hot bed for development of bureaucratism and the abuse of authority for private gain.

4. The separation of taxes and profits line of thinking does not address coordination with price reform. The correlation between prices and tax revenues was discussed earlier. The line of thinking on the separation of taxes and profits does not stress the need for reform of the indirect taxation system. It supposes that taxes and prices are independent of each other, requiring no coordination. It concerns itself with the standardization of tax revenues without fully taking into consideration how gradually to eliminate price distortions at the same time. In addition to the policy-set goals and responsibilities issue, a problem of conception also exists: (Footnote 4—This means that in China, enterprises' costs are reported much lower than they are because of various regulations, thereby resulting in a false picture of superficially rather high enterprise profits. Actually, enterprises have no choice but to use some of their profits to make up for the lack of money to pay for costs. Please see pertinent sections of the author's *China's Fiscal System: Problems and Solutions*, Tianjin People's Press, 1992). In orienting toward reform of the commodity economy, the conception of the kinds of taxes to be introduced was based, to a very large extent, on the revenue model of a market economy. However, until such time as a market competition environment takes shape, and in the absence of price system reform, can tax reform alone attain the goals of reform? We face three choices: One is to wait until the climate is ripe; another is for each to go his own way, each bearing his own responsibilities; and the final one is a form of mutual promotion and coordination.

5. The idea for the separation of taxes and profits does not fully consider the straightening out of the relationship among government finance, the banks, and enterprises. A fairly large number of problems exist today in relations among government finance, the banks, and enterprises. In the relationship between the banks and government finance, the problem exists of bank overdrafts to finance government financial deficits. In addition, government fiscal units use nonstandard tax revenue control methods with specialized banks. Planning units employ directed plant-style loans, with the result that some difficult-to-recoup granting of credit is mandatory. This means that financing for which the government should bear responsibility is borne by the banks, thereby producing a lack of clarity in the relationship between government finance and the banks. In the relationship between enterprises and banks, the lack of

uniform interest rates has resulted in failure to build a normal mechanism between enterprises and banks based on differences in professional risk and bearing responsibility for different rates of return. Nor has a rational enterprise equity-debt relationship consistent with a commodity economy taken shape. Since the 1980's, sufficient working capital has never been disbursed for some enterprises built with state investment. These enterprises are responsible for operating without sufficient equity capital, a large part of risks being borne by the banking system. Enterprises themselves bear relatively little risk. When operating mistakes occur, loans frequently become bad bank debts, and the banks provide loans by administrative fiat; thus, these bad loans cannot be regarded as resulting from bank operation. Reform requires a change in this situation, banks being able to refuse or raise the interest rate on high risk loans. To do otherwise risks having enterprises use large quantities of low interest rate loans whenever they have insufficient equity capital, giving them a motivation for operating on credit. When banks incur large numbers of bad debts, they may also cut back on the profits they tender to the government. This tumultuous relationship among government finance, the banks, and enterprises must be straightened out largely through fiscal reform. However, the separation of taxes and profits line of thinking provides no means for solving this problem. It continues to maintain administrative department meddling in enterprises, administrative departments deciding how enterprises contract with units in charge after taxes, and what preferential policies are to be accorded enterprises, including loan preference. This cannot help the complete straightening out of these relationships.

In short, the separation of taxes and profits, after-tax contracting, and after-tax loan payment line of thinking contains some positive and rational ingredients, but the writer believes that, because it compromises too much with the framework of the present transitional system, it is not forceful enough or is flawed in terms of the overall orientation of economic system reform, and that it does not sufficiently solve some major problems in China's economy at the present stage.

In reform of the fiscal and tax system, it is necessary to understand fully the distortions that exist in China's economy and to analyze and study them thoroughly in order to effect a fundamental turn around. Fiscal and tax reform premised on an effort to eliminate these distortions must re-examine the tax revenue base, readjust the tax revenue structure, and re-design the pattern of fiscal expenditures; it must not permit the existing distortions to cloud vision. The ultimate goal of economic system reform is to make a change from the overly centralized plan economy to a planned commodity economy of fair competition. The overall conception for reform particularly emphasizes uses of the equal competition mechanism as a means of exerting pressure for the improvement of economic efficiency. In the process of moving ahead with the building of an equal competition mechanism, fiscal and taxation policy, which serves as an

important means of national macroeconomic control, must play a major role in getting the economy out of the transitional stage of policy instability as quickly as possible in order to prevent the economy from sliding into even worse haggling.

### **Zhu Rongji Urges Shanghai Not To Intervene in Stock Market**

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in Chinese 3 Sep 92 p 8*

[By staff reporter Li Feng (2621 7364): "Despite a 20 Percent Drop in Shanghai Stock Prices, Zhu Rongji Asks Municipal Government Not To Intervene"]

[Excerpt] A figure from Shanghai press circles disclosed that in mid August, influenced by the Shenzhen stock "riot," the Shanghai stock market experienced the most fatal crash since its opening. Stock prices fell sharply by 20 percent, and there was no sign of recovery even by the end of the month. The Shanghai Municipal Government was rather nervous about the situation. Mayor Huang Ju ordered the city's Economic Research Department to figure out ways to deal with the situation and reported the case to the central authorities. Vice Premier Zhu Rongji gave special instructions: "Let the Shanghai shareholders have a sense of risks. They should be able to withstand both winning and losing. The government should not intervene."

A disturbance arose in China's stock market in August. Bad news poured in from both Shenzhen and Shanghai. Influenced by the negative role of the Shenzhen "riot," the Shanghai index nose-dived. Many shareholders were dumbstruck and caught unawares. The sharp drop in stock prices became the talk of the town. The shareholders said that they had often heard of "the wolf coming. Now the wolf has really come."

Shanghai's Economic Research Department made a systematic analysis of the sharp drop in stock prices and attributed it to the following four factors:

First, the actual stock prices were too high. As demand for stock far exceeded supply, the stock prices were divorced from the market value. Some shareholders were fond of speculation rather than investment, which pushed the prices up. Therefore, the drop in prices was inevitable. However, ordinary people were not prepared for such a drastic drop.

Second, the frequent and excessive issue of new shares and the shareholders' misgivings and conjectures about the stock market affected investment confidence.

Third, the short period between the third and fourth sirens resulted in misconception and misunderstanding. As the funds of the shareholders were limited, the hasty selling inevitably led to a sharp drop in prices.

Fourth, influenced by the Shenzhen stock "riot," the shareholders were at a loss and did not know what direction China's stock market would take.

Mainland economic experts predict that Shanghai's stock market will remain at a low level and be in a state of confusion for the rest of the year. It will be difficult for the government to offer any measure to deal with such a situation. The only thing that can be done is to allow the stock market to develop freely. [passage omitted]

### **Investment in State Treasury Bonds Encouraged**

*HK0109041792 Beijing RENMIN RIBAO in Chinese  
8 Aug 92 p 1*

[By reporter Li Jianxing (2621 1696 5281): "Official From the State Debts Administration Under the Ministry of Finance Says Right Now Is the Opportune Time To Invest in State Treasury Bonds"]

[Text] Beijing, 7 August (RENMIN RIBAO)—At a discussion meeting held a few days ago on the state debt market situation, the person in charge of the State Debts Administration under the Ministry of Finance pointed out: It is now the opportune time to invest in state treasury bonds.

The person in charge said: The current situation in the development of China's securities market is gratifying, but there are still some problems. All kinds of negotiable securities are developing at the same time. In addition to state treasury bonds, corporate and enterprise bonds of all descriptions as well as stocks have been issued one after another. According to the original plan, 83 billion yuan worth of securities are to be issued this year; the actual issuance is expected to surpass this figure. Moreover, some localities have also issued investment bonds and fund bonds. Negotiable securities currently have a multitude of names, and one may well say that we are heading for an overexpansion in terms of total quantity.

In terms of the state debts market, abrupt changes have taken place in a short span of several months this year. The 1992 first-issue state treasury bonds were issued in April, sparking the largest mass fervor we have seen in several years in the scramble for subscriptions in the securities market. The issuance of the bonds was completed very quickly, surpassing the target. In June and July, however, the situation took a sudden turn. On the one hand, after the second-issue state treasury bonds were put out for subscription in July, some cities suffered sluggish sales and, after the first-issue bonds were once again circulated in the market, transfer prices were weak and continually in decline.

Facing the murky situation in the state debt market, after making an analysis of the reasons behind this situation, the person in charge of the State Debts Administration said: 1) The issuance volume of securities of all types has increased, and competition has intensified. 2) This year's

first-issue state treasury bonds were subscribed by institutional investors in large quantities, and after the relevant departments imposed restrictions on the inventory of the securities, they "had loose bowels" and reluctantly had to dump their bonds in large quantities. 3) The sales promotion market is limited in size, the sale of treasury bonds was promoted inadequately, and publicity work was not carried out extensively. 4) The stock craze continued to heat up.

The person in charge of the State Debts Administration under the Ministry of Finance pointed out: The murky situation in the state debt market is a transient phenomenon. Right now is precisely the opportune time to invest in state treasury bonds. In analyzing the situation, the person in charge said: As money-border [jin bian 6855 6708] bonds, state treasury bonds are free from such risks as worsening enterprise operations, bankruptcy, and bad debts; the appreciation of state treasury bonds is stable; and business accounting is to the investors' advantage.

### **First Bankrupt Joint Venture Auctioned Off**

*OW0109054992 Beijing Central People's Radio  
in Mandarin to Taiwan 2200 GMT 30 Aug 92*

[From the "News and Current Events" program]

[Text] The bankrupt Tianjin Simpson Electrical Appliance Company was auctioned off en bloc to the Tianjin Branch Office of the Bank of China. This was the first case of China auctioning off a bankrupt Sino-foreign joint venture.

The company was jointly invested in by the Tianjin Household Electrical Appliance Company, the Bank of China, the Tianjin Trust and Consultation Company, and the Simpson Electrical Appliance Company of Australia.

The company formally began operations in January 1988 and once turned out products rated among the top-10 best-sellers in China. The company ceased to operate in June 1989 as a result of an unendurably heavy debt burden caused by small capital and high costs. On 1 August last year, the Tianjin Branch Office of the Bank of China, as its largest creditor, filed for bankruptcy.

## **SMALL-SCALE ENTERPRISES**

### **Reforms Aid Proliferation of Self-Employed Workers**

*OW0109141992 Beijing XINHUA in English  
1330 GMT 1 Sep 92*

[Text] Beijing, September 1 (XINHUA)—One of the achievements of Deng Xiaoping's "to be bolder in reform" remark in Beijing is that peddlers and moonlighters appear in more and more Beijing streets like mushrooms after a heavy rain.

Statistics show that in the first half of this year, the city gained 12,000 self-employed households, with more than 20,000 self-employed workers. The numbers are 10.2 and 9.1 percent up over the same period of last year.

During that period, the development of privately run enterprises also kept a fast speed. In the first half of this year, an additional 154 privately run enterprises have been established in the city, 36 percent over the same period of last year.

Beijing has more than 152,000 self-employed households, with 224,000 self-employed workers and 582 privately run enterprises.

Since the beginning of this summer, the Beijing Municipal Government has been allowing redundant workers of factories and staff members of state organs to reserve their posts, but not receive salaries from their units, to become self-employed workers and to be employed by privately run enterprises.

The new policy has greatly encouraged the development of the city's private economy.

In the registration office of Dongcheng district's Industry and Commerce Bureau, a unit cadre, who refused to disclose his name, said, he had never thought of having a business license within four days. This indicates the apparent improvement of the industry and commerce bureau's work.

According to a staff member of the bureau, more people come to the bureau to apply for business licenses of self-employed workers. In the first eight months of this year, more than 800 people went there to apply for licenses. The number is 26 percent more than the figure from the same period of last year.

Some of the newly increased self-employed workers came from unemployed middle school graduates and retired workers. However, the majority who are engaged in the moonlight service trade came from factories, state organs and schools.

Most of the newly increased self-employed workers are engaged in the catering trade, repair work, housework service, information service or sales of garments, arts and crafts and other items.

Wang Zhigang has been a fitter in a Beijing factory for more than 10 years. Now he has obtained a business license to repair bicycles in Donghuamen street, a downtown area. He said his factory could not provide much work and money for workers. The factory let workers find other jobs after offering 100 yuan to each worker every month. The factory reserves the posts for them.

Wang has to support his mother and his daughter who is in school. With such a small income life was quite hard for him. After going to the street to repair bicycles, he has an additional 200 to 300 yuan a month.

Since the beginning of this month, Beijing added more than 300 morning markets and over 500 evening markets.

The leaders of the enterprises take different views of moonlighting. Wu Xiaofen is a worker in a Beijing pharmaceutical plant. When she asked for permission from the factory director to find a moonlighting job in her spare time, the factory director refused her application by saying "don't dream that way." In China, people have to get permission from their "danwei", the office of a factory, state organ or any other units.

Another factory director, speaking over the telephone, told the department in charge of self-employed workers in Dongcheng district that his factory has more than 100 workers, and even if his workers did not have any work to do, he would not allow any of them to become moonlighters.

At the same time, a number of factory directors allow workers to find moonlighting jobs under the condition that their extra jobs do not affect their ordinary work.

Zang Hongge, director of the Beijing Municipal Commerce Commission, said that the rapid development of the private economy has given rise to a competitive situation among state-run enterprises, collectively run enterprises and privately run enterprises. This has forced the state-run enterprises to conduct further reform in their management.

The Beijing department store, one of the four biggest department stores in the city, has been facing a great challenge with the appearance of more jointly funded department stores and collectively run stores. Since last year, more than 100 of its sales girls or group leaders have moved to enterprises with much higher salaries or started to manage privately run shops.

According to Guo Chuanzhou, manager of the Beijing department store, his enterprise has been obtaining good profits every year. However, under the old management system, the employees could not receive high salaries. He said that if the department store does not conduct further management reform and provide higher salaries for the employees, the department store could hardly fare well.

Economists say that the mushrooming of Beijing's private sector of the economy is due to the officials' better knowledge of the private economy after Deng Xiaoping made important remarks during his southern China tour earlier this year. Since the beginning of this year, Beijing's industry and commerce departments have simplified procedures and relaxed the restriction for applying for business licenses.

## TRANSPORTATION

### **Qingyuan-Xushui Highway Opens Up to Traffic 1 Jul**

*SK2308081592 Shijiazhuang HEBEI RIBAO  
in Chinese 3 Jul 92 p 1*

[Summary] The Qingyuan-Xushui section of the Beijing-Shenzhen expressway is now finished and opened up to traffic on 1 July. The Beijing-Shenzhen expressway is one of the key highways linking the capital with other parts of the country as well as a key transportation link to link the capital with various provinces in south China. The Beijing-Shijiazhuang section of Beijing-Shenzhen expressway is 224 km in length and the Qingyuan-Xushui section is 40 km in length.

## AGRICULTURE

### **QIUSHI on Application of Agricultural Research**

*HK2608094892 Beijing QIUSHI in Chinese No 12,  
16 Jun 92 p 35-38, 27*

[Article by Wang Anbang (3769 1344 6721): "Accelerate the Extensive Application of Agricultural Scientific and Technological Research Achievements"]

[Text] When talking about the need to rely on scientific and technological progress to develop agriculture, Comrade Jiang Zemin pointed out: "The focus of the rural scientific and technological work should be shifted to the introduction, sampling, and spreading of advanced and applicable scientific and technological achievements" ("Promoting Scientific and Technological Progress Is an Historic Task for the Whole Party and the Entire People"). Our practice of relying on science and technology to develop agriculture in Jinnan District of Tianjin Municipality in recent years has proved that quickening the spread and adoption of scientific and technological achievements in agriculture is a key measure for carrying out the agricultural development strategy, and that only by making painstaking efforts can we do a good job in this connection.

In our district, there are 227,900 mu of farm land and a population of 356,000 people. There are 11 townships and towns and 171 administrative villages in this district, which is well known at home and abroad for the production of "Xiaozhan rice" and is one of Tianjin's major production bases for agricultural and sideline products. Since the Third Plenary Session of the 11th CPC Central Committee, this district has succeeded in maintaining the sustained and stable development of agriculture through making great efforts to promote the application of agricultural scientific and technological achievements and advanced and applicable technologies and techniques. Between 1979 and 1991, the whole district won 88 awards for its agricultural scientific and technological achievements, with three awards being given by the state, 13 by ministries and the municipality, and 72 by district-level authorities. Between 1980 and

1991, the per mu grain output was raised from 188 kg to 338 kg, marking an increase of 79.8 percent; and the output value of vegetables increased by 365 percent and ranked first among various suburban counties and districts for five consecutive years. The output of fresh eggs increased by 4.68 times, and the output of aquatic products increased by 15.77 times. This made a contribution to guaranteeing market supply.

### **Urgent Needs Brought About by the Development of the Situation**

After reform and opening began, the contract responsibility system on a household basis with remuneration linked to output was adopted in the countryside, and the four-tiered network in this district for promoting the adoption of agricultural science and technology was basically broken and dissolved. With regard to the work of spreading agricultural science and technology, there was a situation in which "the district authorities had enthusiasm, but the townships and towns were indifferent and villages even became desolate." The main reasons lay in the changes in the targets and contents of the work of promoting the application of agricultural scientific and technological achievements: Technical work was originally oriented to production teams and collectives, but it had to be shifted to serve a multitude of peasant households; the original administrative pattern of the technical promotion and guidance had to be changed into comprehensive scientific and technical service. In addition, the funds for agricultural science and technology were insufficient; the number of agro-technicians was small, and their professional quality was not high; and they did not enjoy good pay. All this made the work of promoting the adoption of many agricultural scientific and technological achievements hardly effective. At the same time, with the development of various undertakings in towns and villages and the increase in population, the area of farmland continued to decrease year by year; but the quantity and variety of agricultural and sideline products needed by towns and rural villages were required to increase continuously, and product quality was also required to improve. The traditional farming techniques and operational forms used for many years in the countryside lagged far behind the needs of production and the market. The peasant masses were eager to set up a new agricultural science and technology promotion and service system full of vigor so that they could adopt new technology and techniques and new scientific achievements in their production as quickly as possible, thus achieving the purpose of raising output, getting rich, and making the market brisk.

Under the new situation, what should be done to take strides in promoting the application of scientific and technological achievements? The experience of Shuangchang Township in this district provided us with some useful ideas. Since 1983, in light of the developing situation, this township has begun to gradually establish and improve a multiform agricultural science and technology promotion and service system, and has built up

an integrated service structure composed of the links of "scientific research, promotion, and business operation." In the township, there are comprehensive scientific and technical service stations and special technical research societies; in villages, there are agricultural technical groups, peasant technicians, and science and technology demonstration households. On the other hand, with the guidance and assistance of the relevant municipal and district departments, scientific research institutes, and universities, they have strengthened the research and development of agricultural scientific and technological projects, and successively fostered and introduced 15 new varieties of vegetables, with 11 of them winning state-level, ministry-level, or municipal-level awards for making scientific and technological progress. After all the fruits of research were spread and adopted throughout the district in 1989, the 8,900 mu of vegetable gardens completely adopted improved seeds, and the total income was more than twice as much as that in 1983. We earnestly summed up the experience of this township, and gradually brought the work of promoting the adoption of fruits of scientific research onto a path of comprehensive and healthy development through solving the problems generally existing in the whole district.

Practice has made us realize that science and technology, being the primary factor of productive forces, plays a pillar role in agricultural development. To rely on science and technology in developing agriculture, efforts should be focused on turning scientific research results and technological achievements into actual productive forces in agriculture at the highest possible speed, and the central link is to properly introduce, demonstrate, and promote the adoption of agricultural scientific and technological achievements. The difficulties in promoting the adoption of the fruits of scientific research and advanced techniques that appeared for a time indicated that the channels for promoting their adoption were not smooth enough and that there remained a wide gap between the scope of promotion and the scope of applicability. To create a new situation in promoting the adoption of the fruits of scientific research and technological achievements, we still need to do a great deal of work and adopt a series of solid and effective measures.

#### **Changing the Mechanism, Setting Store by Actual Results**

The fundamental driving force for promoting the adoption of agricultural scientific and technological achievements comes from the needs in the development of agricultural production and from the peasants' desire for science and technology. According to the changes in the situation of agricultural production, on the one hand, it is necessary to adopt comprehensive and well-coordinated measures for reforming the system for promoting the adoption of research results and advanced techniques; on the other hand, it is also necessary to pay attention to the results and actually ensure that adoption

will help increase output and income and help peasants get rich. Therefore, we mainly grasped the following links in our work:

**First, establishing and perfecting a service system for promoting agricultural science and technology.** The service system for promoting agricultural science and technology is an organizational guarantee for relying on science and technology to develop agriculture and a necessary condition for promoting the adoption of scientific and technological achievements. The party committee and the government of this district attach great importance to this work. Since 1983, steps have been taken to gradually set up a new-type operational mechanism for the application of scientific and technological achievements. It includes three parts: 1) Establishing and improving a three-tiered system for popularizing science and technology, with the district agricultural science and technology center as the leader, the township agrotechnical stations as the pivots, the village science and technology groups as the foundation, and science and technology demonstration households as the outposts. At the district level, efforts were made mainly to improve the work style of the office, to give full play to its role in technical guidance and coordination, and to encourage the scientific and technical personnel to go to the countryside to undertake technical contracts and give technical demonstrations. At the township level, efforts were mainly made to replenish agrotechnical personnel and basic facilities, and to strengthen their functions in technical promotion and service. The work at the village level was focused on properly organizing the village science and technology groups and supporting and developing science and technology demonstrating and specialized households. 2) Establishing and improving the community service system in the aspect of agricultural science and technology. This service system is oriented to all pre-production, production, and post-production links, and covers such technical fields as seed cultivation, plant protection, farm machinery, and chemical fertilizer. It provides material, financial, technical, and information services. The service undertakings are mainly run by governments at various levels, and some of them are also run by local people. The work of spreading and promoting the fruits of science and advanced techniques, offering technical services, and running economic undertakings is integrated. The district agricultural science and technology center took the lead in running a "plant hospital" and other service organs. The agricultural technical departments in various townships and towns also turned themselves into combination bodies that handled technical affairs, agricultural production, and trade and oriented scientific research to production. They run economic undertakings on the basis of spreading the fruits of science and advanced techniques, and for the purpose of improving the effects of spreading the fruits of science and advanced techniques. They charge low fees for their technical services to cover the costs of their operation. They offer such free services as running technical training courses to popularize the fruits of science and advanced techniques and distributing technical information. In the

first four months after its founding, the "plant hospital" run by the district science and technology center provided consulting services to more than 1,000 people, and dispensed more than 1,000 prescriptions. It also gave guidance to more than 800 people in its personnel's service tours of the countryside, and supplied more than 40 varieties and more than 7,000 kg of improved seeds. In the first year after the founding of the "plant hospital" in Balitai Township, they possessed six kinds of "assets" (location, "doctors," plant specimens, hanging illustrations, pesticide, and means of transportation), and actively offered service in the forms of "outpatient service" and "paying home visits to patients," which means giving on-the-spot technical guidance. The number of service projects exceeded 200; the quantity of pesticide of all sorts it sold exceeded 300 tonnes; and income exceeded 700,000 yuan. In 1991, the whole district encountered a serious plague of insects, and "plant hospitals" at various levels immediately guided peasants to use an advanced technique to kill the pest and effectively reduced the losses it caused. 3) Establishing and improving mass science and technology organizations. In 1985, this district began to set up rural specialized technical associations and research societies at the district and township levels, and also organized specialized technical research groups at the village level. These agricultural technical organizations run by local people with the guidance of the government departments concerned play the role of a link between the municipal and district science and technology commission, science and technology associations, and scientific research institutes on the one side, and the innumerable peasant households on the other, and they have rather effectively resolved the problem of a lack of relations between the fruits of science and peasant households. In Shuangzha Township, 12 agricultural scientific research societies were set up with a total peasant membership of 354 people. Many members are agrotechnicians, specialized households, demonstration households, and people good at getting rich [zhi fu neng shou 5268 1381 5174 2087]; and they play an effective role in introducing agricultural science and farming techniques to the masses through their demonstrations. Since 1985, they have developed and spread a total of 50 applicable new techniques and have raised the per mu wheat output in this township from 27 kg to 250 kg. Spreading the technique of raising different fish in different depths of water resulted in raising the per mu fishery output from tens of kg to 350 kg.

**Second, promoting large-scale application projects and combining them with "short-period, low-cost, and quick-return" projects.** In order to thoroughly improve agricultural production conditions and to raise the comprehensive technical standard of agricultural production, it is necessary to select some large scientific and technological projects that have a bearing on the overall situation, represent the general orientation, and can lay a good foundation for production in all fields, as key breakthroughs in promoting the adoption of the fruits of science and technology were made through these projects. At the same time, it is also necessary to select a

number of projects that require less investment, yield quick returns, lead to high efficiency, and are suited to the current technical conditions. This district is constrained by such factors as a shortage of land resources and water supply and a vast area of saline-alkali soil. The combination of adopting large-scale technical projects with the adoption of "short-period, low-cost, and quick-return" projects has achieved good results. In the aspect of large projects, we successively promoted the adoption of the irrigation and drainage technology for washing out saline alkali from over 10,000 mu of land, the technology for using wind energy, the technology of standardized rice cultivation on 30,000 mu of land, the comprehensive demonstration project of using machines to cultivate Xiaozhan rice in 10,000 mu of paddy fields, and the technique of raising fishery output in a large area of water. These projects were organized and coordinated by the district authorities through arranging and distributing manpower, materials, financial resources, and technical strength, and were conducted in a well-planned, well-organized, and orderly way. In the large project of building 12,000 mu of ponds to raise fish in Balitai Township, we successively imported such valuable breeds as wuchang fish, Japanese white carp, and German mirror carp, and adopted the methods of combining fish cultivation with poultry and animal farming and combining fish cultivation with growing rice, thus forming a benign ecological cycle for fish cultivation. The adoption of such support technologies as using purified urban sewage for fish cultivation and using machines to pump oxygen into water also resulted in greatly raising the fishery output and lowering the cost of production. Now, the township has become one of Tianjin's six major freshwater aquaculture bases. In the aspect of "short-period, low-cost, and quick-return" projects, we successively adopted the technique for raising rice seedlings, the technique for weeding, the comprehensive technique for preventing and killing rice pests, the phosphate-nitrogen fertilizer prescription, and the cultivation technique for raising the output of wheat and corn to 1,000 kg per mu. In the course of promoting the adoption of these techniques in every household, we had to ensure that the techniques were mature, suited to existing conditions, and easy to operate and control. For example, "NK-P plant nutrition" is a nonpoisonous and harmless product which can make vegetables and fruits ripen quickly and can raise product quality. After it was applied to fields, vegetable gardens, and orchards among some households in 11 townships throughout the district, the unit area output of tomatoes increased by 27 percent, that of apples increased by 33 percent, the sugar content of fruits increased by 11 percent, and the vitamin C content increased by 30 percent. It is popular with the masses of peasants, and the project won the state's third-class award for scientific and technological progress. With both large and small projects being adopted at the same time, we rather quickly improved the agricultural production conditions and basic facilities throughout the district, and created favorable conditions for achieving stable and high output in large areas and helping peasants get rich.



**Third, combining the introduction of other people's achievements with our own innovations.** In order to achieve greater results in the work of promoting the adoption of the fruits of science and technology, we not only actively introduce domestic and foreign advanced technologies and techniques, but also develop our own new techniques and cultivate our own new varieties and breeds suited to our local conditions through absorbing and digesting other people's achievements. These new techniques and new varieties can be easily spread and adopted, and quicken the pace of commercializing the scientific and technical achievements in the whole district. In this district, the Changqing Agricultural-Industrial-Commercial Corporation began in 1986 to successively introduce 34 rare and special vegetable varieties from other domestic areas and foreign countries, including American cauliflower, American lettuce, Netherlands beans, celery, and Japanese cherry tomatoes. They cultivated these plants according to local soil, climate, and water conditions, and strengthened scientific management. As a result, these new varieties were all successfully grown in this district in the experiments. In the past five years, they supplied more than 1 million kg of special vegetables for several high-class hotels in Tianjin. At present, the introduction of new vegetable varieties has been expanded to three townships, and the growing area has increased to 890 mu. An annual income of over 1.2 million yuan is made from this project.

**Fourth, combining the work of promoting the adoption of existing scientific and technical achievements with the work of carrying out advance research [chao qian yan jiu 6389 0467 4282 4496].** Science and technology are developing by leaps and bounds, and market demand is also increasing day by day. While doing a good job in promoting the adoption and coordination of the existing fruits of science and technology, we must also carry out advance research and increase our technical reserves if this is possible so that we can continuously update our technology and techniques and adopt more advanced fruits of science and technology. We have been making unremitting efforts in this connection, and strive to start new research projects and make new achievements every year. According to this district's conditions, we exercise unified leadership and organize the technical forces inside and outside this district to jointly tackle key technical issues and create a range of advanced new technologies and techniques applicable in agricultural production. Among others, the research project related to soilless cultivation, the development of a new technique for cultivating improved celery seeds through "single plant cultivation—small group proliferation—large group selection—single plant cultivation," and the projects of cultivating improved seeds of Chinese chives, tomatoes, and eggplants all hold a leading position in China. Through two years' experiments, the soilless cultivation technique achieved a per mu cucumber output of 5,000 kg, and the technique is mature enough to be adopted over large areas. After "Cufengling [0191 0023 7227]," a new chemical product, was tried in the

cultivation of grapes, the products could be made seedless, evenly sized, and early maturing. The project was valued highly by the departments and experts concerned. Such new vegetable varieties as "Jinnanshiqin No. 1 celery" and "Jinnanqingjiu chives" separately won the state's third-class invention award and Tianjin Municipality's second-class award for scientific and technological progress. The new three-dimensional farming technique that combines rice growing, mushroom growing, and fish raising developed first in the whole country by this district has brought pronounced economic and environmental benefits as it can use resources fully through the combination of crop farming with fish farming. The annual per mu income brought by this technique may reach 3,997 yuan, being equivalent to 6.8 times the income from growing rice alone. In a number of years, we made use of the research forces in various research institutes and universities and relied on the science and technology promotion networks to gradually set up an integrated agricultural science and technology system which is composed of the four links of scientific research, intermediate-stage experiments, promotion and extensive adoption of research results, and technical service. This effectively increases the momentum of promoting the adoption of the fruits of science and technology and facilitates the effective transfer of research results to the field of production.

#### **Creating a Favorable Social Environment for Promoting the Adoption of the Fruits of Science and Technology**

The results of the adoption of the fruits of agricultural science and technology depend to a large extent on whether a favorable social environment can be created. In this connection, we have mainly grasped the following four things.

**First, requiring leaders to attach importance to this matter and formulate corresponding plans and measures.** The key to effectively promoting the adoption of the fruits of science and technology lies in the leaders. In this district, the leaders of the district party committee and the district government constantly take the work of promoting the adoption of the fruits of science and technology as a major strategic task in developing agriculture, and actually put it in their day-to-day work schedule. They formulate short-term and long-term programs and concrete measures for relying on scientific and technological progress to bring economic development in this district, and guide leaders at lower levels, scientific and technical personnel, and the masses of peasants to make joint efforts to put them into practice. According to the principle of "creating proper coordination and planning, giving prominence to key points, ensuring orderly management, and stressing actual results," we require that leading bodies at various levels give guidance to and play an exemplary role for their immediate subordinate bodies, and stress the guiding and exemplary role of leaders. All principal district leaders are actively involved in agricultural scientific and technical experiments and demonstration activities. They often go to villages to examine and guide practical

work. At the same time, all departmental leaders and rural leaders in this district are also required to care about and support the work of promoting the adoption of scientific and technical achievements. This work is mainly handled by various townships. We selected seven townships, including Shuanggang and Balitai, to carry out pilot schemes. The work of promoting the adoption of the fruits of science and technology is included in the target responsibility system for the township leading bodies, and is subject to regular examination and assessment. The district party committee and the district government formulated concrete methods of commending townships and individuals achieving outstanding results in this connection, and took this as an important item in inspecting and assessing the work performances of township governments and township cadres.

**Second, increasing multi-tiered input through many channels.** The work of promoting the adoption of the fruits of agricultural science and technology requires certain financial support. We have tried by every possible means to broaden the channels for raising funds, and have established a multi-tiered and multi-channeled system for guaranteeing the investment in agricultural science and technology through the combination of the resources from the state, collectives, and individuals. When the district's financial revenue was increased, in order to ensure a corresponding increase in the input to the popularization of agricultural science and techniques, we set up an agricultural science and technology development fund. In 1990, the funds allocated for promoting the development of scientific research and for tackling key technical issues exceeded 700,000 yuan in the whole district. Townships are required to collect full amounts of the "supporting-agricultural-development-through-industry" fund. In the last few years, townships used 30 percent of this fund to promote the adoption of the fruits of agricultural science and technology. Through educating the peasants, we help them overcome the short-term mentality and behavior and encourage them to willingly increase financial input to scientific and technical items. This has changed the previous situation in which "scientific experiments were financed by money from the upper authorities." In addition, the institutions for promoting science and technology are required to use the main part of their income to make up shortages of funds. We also allocate special funds earmarked for promoting the adoption of agricultural technology in order to guarantee the key projects. The use of such special funds is subject to regular auditing and open supervision.

**Third, strengthening technical training and raising peasants' technical and cultural level.** At present, peasants' scientific and cultural knowledge in general is not rich enough, and many people have difficulty in mastering agricultural science and technology. Some people adopt a wait-and-see attitude toward the adoption of new techniques because they do not understand the role of science and technology. In order to change this state of

affairs, we organize continuous activities of giving technical and cultural education to the peasants and combining this with agricultural production and scientific research. 1) We attach importance to the work of conducting agricultural technical education. Study classes, broadcast agricultural technical seminars, and short- and intermediate-term technical training courses are held regularly in connection with experiments, demonstrations, inspections, and consulting service. Various ancillary means, such as movies, video programs, cassette tapes, books, and printed information are used for training purposes. This helps peasants increase their interest in science and technology and master some practical techniques. 2) We attach importance to the work of popularizing general education in the countryside. Efforts are made to run rural primary and secondary schools, vocational schools, evening schools, and spare-time colleges well. This helps peasants turn themselves from workers with "physical strength" into workers with "intellectual strength." In recent years, we successively held 781 technical training courses to gave training to 38,418 people. In the whole district, the peasants' illiteracy rate declined from 19.13 percent in 1982 to 13.12 percent in 1990. The proportion of people who had received junior secondary school education or above increased from 25.96 percent in 1982 to 33.21 percent in 1990. The enhancement of peasants' scientific and general knowledge has greatly increased their interest in the adoption of the fruits of science and technology and has also raised their ability to assess and buy them.

**Fourth, fully arousing the work initiative and enthusiasm of agrotechnicians and scientific personnel.** Fully arousing the work initiative, enthusiasm, and creativity of the scientific and technical personnel in agriculture is the precondition for effectively promoting the adoption of the fruits of science and technology. We carried out fully the policies of the party and the state toward intellectuals, adopted incentive mechanisms, formulated methods of giving awards, and guided them to display their prowess for boosting the scientific and technological development in this district. Every year, commendations and material awards are given to institutions and individuals achieving prominent results in scientific research and in the work of promoting the adoption of research results. Awards of great value are given to those who have made outstanding contributions. In order to encourage agricultural technical personnel to work permanently in the countryside, we ensure that their job status, residential status, wages, bonuses, and fringe benefits all remain unchanged, and also allow their wages to go up. Preferential treatment is given to the scientific and technical personnel and the management personnel invited from other localities outside this district, and better working and living conditions are provided for them. We also help the agricultural technical personnel to make political and ideological progress, pay attention to the improvement of their work conditions, admit progressive figures among them into the party, and create conditions for their representative figures to

participate in the deliberation and administration of state affairs. At present, scientific and technical personnel account for 13.83 percent of deputies to the people's congress in this district and 13.4 percent of members of the district committee of the Chinese People's Political Consultative Conference. In the period of the Seventh Five-Year Plan, we gave priority to solving housing problems, children's employment, and nonrural residential status, and to transferring the spouses of a large number of scientific and technical personnel to where they lived. The pay of some peasant technicians was also appropriately raised. Through the adoption of these measures, the number of agricultural technical personnel increased year by year. The previous situation in which it was hard to bring new technicians into this district and to keep original ones here was thoroughly changed. A high-quality agricultural scientific and technical contingent which is professionally proficient and has a good work style has taken shape, and is playing a greater and greater role in developing agriculture through making scientific and technological progress.

#### Highest Grain Producers Listed

92CE0589A Beijing ZHONGGUO TONGJI XINXI  
BAO in Chinese 2 Jul 92 p 1

[Article by Shi Fangchuan (4258 2455 1557), Zhang Yi (1728 3015), Guan Bing (7070 0393): "China's Grain, Cotton, Oil and Meat Output Among Highest Worldwide; Top 100 Producing Areas Listed by China's Statistical Bureau"]

[Text] In 1991, China suffered rather serious natural disasters since liberation, but from the agricultural front came the welcome news that oil and meat output set historical records, and grain and cotton output were the second highest in history. For several years running, China's grain, cotton, oil and meat output were among the highest worldwide. Among China's more than 2,300 counties (cities and districts), which ones made the greatest contributions? Which ones set the highest production records? China's Statistics Bureau recently published a ranking list based on 1991 figures in these production categories, and among the 100 counties noted for their contributions to the bountiful harvest year, Nong'an County in Jilin Province, Sheyang County in Jiangsu Province, Pingdu County in Shandong Province and Anyue County in Sichuan Province were "champion counties" that garnered laurels in one or more of the production categories.

Among the 100 top grain producing counties, 12 counties each broke the 1 million ton record; their total grain production of 15.937 million tons, amounting to one-fifth the total production of the 100 counties, put them on top. The 12 counties are: Nongan County, Kongzhuling City, Yushu City, Fuyu City, Lishu County and Dehui County in Jilin Province; Shuangcheng City and Zhaodong City in Heilongjiang Province; Changtu County in Liaoning Province; Tongshan County in Jiangsu Province; Pingdu City in Shandong Province;

and Xiangyang County in Hubei Province. Among these, Zhangdong City and Xiangyang County broke the 1 million ton grain production record for the first time.

According to statistics, the 19 counties that made the 100 top grain producers list for the first time were: Mo County, Weifang City Municipal District, Gaomi County and Taian City Municipal District in Shandong Province; Pei County, Guangyun County and Suqian County in Jiangsu Province; Suining City Municipal District, Fengxi County and Bazhong County in Sichuan Province; Shunji County and Tong County in Beijing Municipality; Haicheng City and Fuxin Autonomous County in Liaoning Province; Longjiang County and Baiquan County in Heilongjiang Province; Dingzhou City in Hebei Province; Hua County in Henan Province; and Jingshan County in Hubei Province. Among these, Shunyi and Tong Counties in Beijing Municipality made the list of 100 for the first time.

Leading the 100 top cotton producing counties was Sheyang County in Jiangsu Province, which jumped from eighth place in 1990 to the top spot in 1991 with a production of 63,500 tons, an increase of 79.7 percent over the year before and 1.4 times higher than the average of 27,000 tons produced by the 100 counties. In the second through the 10th places were: Cao County, Fugou County, Juye County, Tianmen City, Taikang County, Hua County, Neihuang County, Rudong County and Yuncheng County. The first five counties on the list each broke the 50,000 ton record. In 1991, 17 counties made the list of 100 for the first time; among these, most notable was Huaiyang County in Henan Province which increased its cotton production by 131.2 percent and jumped to 36th place from below the list of 100 in 1990.

In 1991, the ranking 10 of the 100 top oil producing counties were: Pingdu City, Changling County, Junan County, Caixi City, Rizhao City, Tongyu County, Rongcheng City, Wendeng City, Jiaonan County and Wuyuan County. Oil output in these counties exceeded 80,000 tons, and the first five broke the 100,000 ton record. In the top spot was Pingdu City which produced 142,000 tons, close to two times the average production of the 100 counties.

On the list of 100 top meat producing counties, the following made the top 10 for the first time: Anyue County, Ba County, Hechuan County, Jiangjin County, Beijing Municipal District, Zhongjiang County, Renshou County, Jianyang County, Taixing County and Changsha County. Their pork, beef and mutton output exceeded 70,000 tons; Anyue County took the top spot producing 88,000 tons, or 83.9 percent higher than the average of 100 counties.

According to statistics, in 1991 the 100 top grain producing counties produced a total of 76.06 million tons, 320,000 tons over the year before. In 1991, the 100 top cotton producing counties produced a total of 2.7 million tons, an increase of 23.3 percent over the year

before; that figure accounted for 47.6 percent of China's total cotton production, and the increased amount represented 44 percent of the country's increased production. The 100 top oil and meat producing counties produced 47.45 million tons of oil and 47.7 million tons of meat, increases of 5.3 percent and 9 percent respectively over the year before; in terms of the country's total output, these figures represented 29 percent of the oil

and 17.5 percent of meat production. The above shows that the top 100 counties in the enumerated production categories occupy a very important position in China's agricultural production; they play an indispensable role in promoting China's stability and prosperity, and in laying a material foundation for all citizens as they progress from a basic livelihood to a life of moderate material comforts.

### **Institutional Obstacles to Effective Mainland Policy**

92CM0383A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 277, 4 Jul 92 pp 28-29

[Article by Hsieh Chung-liang (6200 1813 5328): "The Bureaucracy Looks Impressive Outside, but Offices Overlap Inside - Changing Functions of Mainland Affairs Directorate Staff (MADS) and Mainland Policy Planning Staff (MPPS) in the Kuomintang (KMT)"]

[Text] National Security Bureau head Song Hsin-lien [1345 1800 3425] openly criticized the Executive Yuan Mainland Affairs Council [MAC] for not first submitting the proposal to permit service industries to invest in the mainland for review to the MPPS. This criticism not only greatly embarrassed MAC chairman Huang Kun-huei [7806 2492 6540], but also revealed that the MADS, the thoroughly reorganized and supposedly highest ranking KMT decision-making body, is but a paper organization and that its counterpart the MPPS is also not functioning effectively.

In Taiwan, responsibility for mainland policy-making rests with the National Reunification Council [NRC] in the Office of the President, MAC in the Executive Yuan and the MADS in the KMT. Generally speaking, the MADS should be the highest level decision-making body in the political framework, but because there is also the NRC in the Office of the President, the MADS finds itself in an organizationally awkward position.

High-ranking KMT officials revealed that high-level mainland policy invariably evolved from outside the bureaucratic framework, and this fact overshadows the work of the MADS and MPPS, and leads to a nonsystematic mainland decision-making process as well as a lack of coordination among the various concerned departments and offices.

In the KMT Central Committee, because of efforts to implement the "party reform and simplification measures," personnel and funds of the KMT Mainland Affairs Subcommittee [MASC] were cut; and KMT secretary-general Sung Ch'u-yu [1345 2806 3842] further indicated that the MASC should transfer functions dealing with mainland affairs to its political and intelligence counterparts, which resulted in the MASC severing all mainland intelligence sources to conform with party reform measures.

According to highly-placed KMT sources, the effect of implementing the party reform measures was to strip the MASC of staff capability, and streamlining resulted in elimination, given the competition for talent from various sources, capable personnel gladly resigned from their old jobs and took on better-paying or higher-ranking positions. Personnel with average or below average ability, without any upward mobility, could only hang on to their dead-end jobs.

But the MASC supposedly functions as executive secretariat for the MADS, the MASC lacking in personnel and intelligence can hardly come up with relevant proposals to meet the present policy requirements, or to critique measures in this area submitted by others. Lacking in operational effectiveness and with the still-vacant MASC chairmanship unfilled, the MASC laboring under such handicaps is the most ineffective of the organizations dealing with mainland affairs. The MASC inadequacy has also affected the decision-making role of the MADS.

It was pointed out that initially the main rationale for reorganizing the MADS was to deal with the increasingly complex and frequent exchanges between the mainland and Taiwan. Premier Hao Po-tsun, secretary-general Chiang Ch'u-shih [5592 1750 1102] in the Office of the President, and KMT secretary-general James C.Y. Soong were the three persons responsible for establishing the MADS. The original plan had to be coordinated three ways with the party, government and presidential office. The MADS furthermore had to include representatives of the party, government, military and intelligence; views of the concerned departments had to be sought in any policy decision so that mainland policy-making would proceed in a planned, organized and unified manner.

But since its establishment, the MADS functioned as planned only in two initial projects, and the subsequent ones were ineffectual attempts; few if any of the major Executive Yuan decisions were staffed through the MADS before they were implemented.

Of the three MADS organizing members, Hao Po-tsun and James C.Y. Soong tended to be prudent and conservative in their mainland policy orientation, but Chiang Ch'u-shih seldom advanced any relevant views when discussing mainland policy topics. Furthermore, the MADS meetings are held irregularly; since its establishment, not many meetings have been held. When a meeting took place, discussion among participants was lackadaisical. After a report was tabled, aside from Shen Ch'ang-huan [3088 2490 3562] putting forward a few more comments or ideas, most of the time, the meeting would be adjourned after the chairman made a decision.

Due to inadequate staffing, the MASC often failed to meet the required deadline for reviewing draft measures forwarded to it by the MADS. Given the failings of both bodies, the MADS naturally could not exercise fully its overall coordinating function.

According to highly-placed party sources, Li Teng-hui usually used different approaches to shape mainland policy by consulting with relevant aides. Beside the National Reunification Council channel, Li Teng-hui's mainland policy aides do not function in any organized manner. As a consequence, subordinate units, particularly those charged with policy implementation, often find it difficult to keep track of news regarding decisions that have been made in the President's Office.

Sources in the Office of the President explained that in reality Li Teng-hui's mainland policy follows a logical pattern, emphasizing the approach of dealing with practical aspects of the relationship between the two coasts. Beside Li Teng-hui's public pronouncement that it would be desirable to accelerate scholarly and cultural exchanges between the mainland and Taiwan, Li hopes to rely on practical measures to deal with economic, trade and political exchanges, and not to indulge in any one-sided wishes. This approach has been fully described in the "National Affairs Conference Guidelines" and no "black box" approach is involved. Following the "National Affairs Conference Guidelines" to promote cross-strait exchanges conforms with the present mainland policy and will not result in any uncoordinated approach.

In terms of KMT planning, under the MADS is the MPPS, which relies on the KMT Mainland Affairs Subcommittee as its executive secretariat. The MPPS is supposed to meet weekly, and James C.Y. Soong is its organizer. The MPPS is supposed to review and appraise mainland-related proposals developed by the MAC. All MAC-proposed measures are to be vetted by the MPPS, then forwarded to MADS for final decision. But because the MADS meets irregularly, and functions ineffectually, many MAC-proposed measures are put into practice only after MPPS review. Thus, the MPPS, in practical terms, has taken over much of the role and functions of the MADS.

National Security Bureau head Song Hsin-lien the other day strongly criticized the MAC for not submitting the measure

allowing the service industries to do business on the mainland to the MPPS for review. It showed the importance of MPPS in terms of formulating mainland policy.

It was reported that when MAC vice chairman Ma Ying-chiu [7456 5391 0046] was in the United States for a meeting, the MPPS debated whether Ma should attend the same meeting with People's Republic of China Overseas Commission honorary chairman Wang Daohan [3076 6670 3211]. The MPPS decided that since Ma has official status, it would be inappropriate for him to have contact with Wang Daohan. From this, it can be seen how thoroughly MPPS delves into matters great and small.

According to high KMT officials, the reason the mainland policy-making process is not systematically pursued is due to public pressure and preference; the government hopes that mainland policy can be handled within the system, but the economic and finance ministries, under public pressure and not willing to be the "bad guy," and often pass the buck to the MAC. But the MAC, under public and party pressure, also finds it difficult to get a suitable handle on mainland policy. Furthermore, with the high-level MADS in the KMT being a paper organization and the MPPS involving itself in fact in all aspects of the process, the distinction between analysis and execution of policy becomes blurred; in the absence of a unit with a macro overview and capable of providing executive direction, it is difficult to see how the mainland policy-making process can be anything but uncoordinated and confused.

### Beijing's Leftist Policy Criticized

92CM0384A Hong Kong CHENG-MING [CONTENDING]  
in Chinese No 177, 1 Jul 92 pp 83-85

[Article by Chi Tze (2630 1311): "'Leftist' Whirlwind Runs Rampant in Hong Kong"]

[Excerpt] Taking advantage of the whirlwind of Deng Xiaoping's southern tour, the CPC's public opinion organs are making major attacks within China on "leftist" tendencies. But what is surprising is that the CPC's policies on Hong Kong are becoming more and more "leftist," and even going way beyond normal.

The most typical example that can be cited is the 18 June statement of the chief Chinese representative of the Sino-British Joint Liaison Committee Guo Feng-min [6753 0023 3046]. When a reporter asked if new Hong Kong Governor Chris Patten would be able to appoint Hong Kong United Democratic Alliance members to serve in the Executive Council, Guo forcefully stated: "The attitude of the Chinese Government is quite clear. The Chinese Government believes that if persons opposed to Hong Kong's Basic Law, who have publicly advocated the need to subvert China's legitimate government, are allowed to enter the Executive Council, this will not be favorable for the stability of Hong Kong. For this reason we are opposed."

The CPC has always disdained paying attention to the Legislative Council [Legco] and Executive Council [Exco], and up to now still does not acknowledge their position, hence Guo Fengmin's sudden gesture towards the appointment of Exco members is not only crude interference in the administrative and management power of the Hong Kong and British Government during the transition period, but is also against the Sino-British Joint Declaration. Even more serious is that the CPC now associates the "crime of subversion" with Hong Kong. We have reason to believe that this implies that 1997 will generate a host of "freedom of thought violations."

What is "advocating subversion?" Clearly this is only a type of public opinion. The United Democrats freely admit that they oppose some conservative articles of the Basic Law, especially the political system section as not in keeping with the present world environment. This is an expression of freedom of speech, let alone the fact that up to now the United Democrats have not raised a set of their own "basic laws" for Beijing. Even if they had, in Western party politics this would be normal practice. Just as the United Democrats Deputy Chairman He Chun-jen [0149 0193 0088] stressed, they disapprove of the Basic Law, but are willing to comply with the Basic Law. He questioned Guo Fengmin, asking on what basis do you term the United Democrats "subversive criminals?" If they have really committed crimes, then they should be tried through the courts and a verdict made, and what one person says does not count. He worries that the CPC with this kind of "personal rule" style precedent-setting talk will create a very bad influence.

The question that emerges here is whether the CPC is consciously or unconsciously undisguisedly bringing internal politics to Hong Kong, labelling people, seeing dissidents as a thorn in its side, and unable to be happy with anything less than their death. One might well ask, how is this different from the CPC's "class struggle," and "one country two systems?!" United Democrat spokesman Li Yong-ta [2621 3057 6671] pointed out sharply that criticizing and even attacking the Basic Law was not the same as opposing the Basic Law, and those demanding that a premier or government step down also could not be accused of subverting the government. If this basic concept is not established, then we are back in the era of Stalin and Mao's autocratic politics where one person lays down the law, a practice which has been cast aside by history.

Guo Fengmin's challenging expression makes the opposing momentum of the Chinese and British sides clear. The Foreign Ministry Official with specific responsibility for Hong Kong affairs, Alastair Goodlad, called in the Chinese ambassador to Britain Ma Yuzhen to protest Guo's statements as out-of-line, and pointed out that it went against stipulations in the Sino-British Joint Declaration related to the fact that the Joint Liaison Group should not interference in Hong Kong's administrative affairs, and does not have authority to supervise Hong Kong's administrative functions.

In addition, it may well be said that new Hong Kong Governor Patten is in an unpleasant situation: If he does not appoint United Democrats members to the Exco, he will be viewed by Hong Kong citizens and the British as kowtowing to Beijing. If he does appoint United Democrats, it will undoubtedly lead Beijing to suddenly turn hostile. Guo Fengmin's naked candidness about Beijing's intentions showed his inability to hold back, and his arrogance, and has landed Patten in a passive position where no matter what decision he makes, there will be a mighty uproar, again shaking the already fragile confidence of Hong Kong people. Guo Fengmin words "not favorable to the stability of Hong Kong" are really the result of his and the CPC's "leftist" bent in terms of Hong Kong policy.

At meal times, when people discuss the statements and actions of CPC officials managing Hong Kong policy, they can't help shaking their heads and sighing. What is worth noting is that these critics usually have a good command of English, and most are high-level intellectuals, whose way of thinking is frighteningly ossified. In fact this is not a sudden phenomenon, as the strong reverberation of the events of 4 June among Hong Kong people and shock wave of the departure of Xu Jiatun deepened the anxiety of the CPC conservative faction towards the capability for "peaceful evolution" of this small piece of land called Hong Kong. The CPC's Hong Kong organs underwent a purge, and everyone was held up to a "leftist" standard. Innocent Hong Kong people were viewed differently after the events of 4 June, and the position of the Hong Kong XINHUA branch is not as it was in the Xu Jiatun era. On a number of crucial and



sensitive questions, the Hong Kong and Macao Affairs Office holds the sword, and it is reported that Lu Ping has obtained the confidence of Li Peng, and after 4 June has become Beijing's "heavy gunner." The boom of guns is heard often, and Hong Kong and Britain are weak in parrying Guo's blows, and he presumably is repaying a debt of gratitude to his patron Li Peng. Add to this the fact that "iron mouth" Guo Fengmin has substantial foreign policy experience, and the pair's totally uncompromising and intrepid style, forms a stark contrast to outgoing Governor Sir David Wilson. Looking at Beijing's hypocritical parting words for their "old friend" Wilson when he visited the Chinese capital, one clearly senses the political sham. Supposing it were not the case that the CPC's post 4 June "leftist" whirlwind was running rampant, and Sino-British relations had fallen to unprecedented lows, Wilson also would not have had his weakness pointed out by those in government and the public on the British political stage. What is interesting is that the "China hands" in the British Foreign Ministry generally have a deep affection for China, being lost in the mysterious Eastern civilization, but the CPC fostered "Britain hands" are exactly the opposite. Their high level party spirit often leaves them adversarial and tongue tied. For example, Lu Ping graduated from Shanghai's well known St. John's University, but we can see that for him, the edification of imperialist Christian culture was early on beaten back by the ideal of a communist dictatorship.

Of course, Lu Ping is of that generation in the CPC's golden age that gave themselves to the revolution, and this profound feeling is above reproach. However, when all over the world communist systems are on the verge of collapse, Hong Kong political circles have given rise to "those who turn in their tracks," turning towards socialism, those "inspiring awe and upholding justice" deny the "yesterday's me" politician, cooperating with the CPC's extreme "leftist" policies for Hong Kong, and joining the ranks of those who would kill off all of Hong Kong's democratic groups, opposing the tide of democracy, and instead are in accord with the mentality of those politicians who worry that in 1997 they will lose their special privileges.

Cooperative Resources Center head and former Legco chief member Allan Lee recently went north to visit Beijing, and was received by CPC General Secretary Jiang Zemin. When the news reached Hong Kong, it caused surprise both among leftist and rightist groups. The favorable treatment accorded the Cooperative Resources Center could also be seen on Beijing television stations, and the news headlines that day noted that the Center was visiting Beijing, and the visit of Premier Li Peng to Finland was relegated to the back.

Perhaps Allan Lee also did not realize himself that he would be able to receive the highest standard of treatment by the CPC, otherwise before he went to Beijing he would not have stated three times that this move was not "a pilgrimage" and a "kowtow." According to reports, when Lu Ping recently visited Hong Kong he met with

the Center, and for both sides, when the conversation got disagreeable, it was a waste of breath to say one more word. Looking at the Chinese side, people at the Allan Lee level have all along been in essence British in their Hong Kong British cultivation, and consistently urge Beijing's recognition of the position of the Exco and Legco, and clearly do not walk the same road as "figures who esteem the party." Among the recently appointed 44 Hong Kong Affairs Advisers, the Center does not have a single name.

Therefore, the reason that Allan Lee became an honored guest of the Great Hall of the People is very simple: Because John Major received United Democrat Martin Lee, Jiang Zemin generously received Allan Lee. Indiscriminately applying the CPC's terminology, it may be said that this was "giving tit for tat, not yielding an inch." Now, no matter whether it is Hong Kong British groups, or reactionary factions, as long as they are capable of life and death combat with the democratic groups, all are the friends of Beijing.

Of course, the CPC's "valuing" of the Center is also passive, as the CPC knows what it is doing, and since the Democratic Alliance for the Betterment of Hong Kong has held aloft a big "pro-Beijing" banner to recruit followers, in the 1995 direct elections it will also not be able to obtain very many seats. To let "its own friends" become the lead in governing Hong Kong, the CPC must have the support of the forces of the Center to root out the thorns in its side, and just as the author has previously pointed out, this benefits a third party.

Nevertheless the CPC's wishful thinking will certainly not allow it to achieve initial success, and there could be a rapid splitting up of the "leftist" camp. When Allan Lee daringly and energetically said to this reporter that "General Secretary Jiang Zemin invited the 11 of us to come to Beijing....," those "traditionally esteeming China figures," and other "newly emerged forces patriotic to China," what was in their mind?! What is also sad is that the CPC is slow in reacting to the development of local politics, feeling that it is an "eyesore," and depending on despotic power to frighten people. For the last three years, Hong Kong's XINHUA has basically not dared to face the rapidly changing situation, hiding in a snail shell, drawing in a number of pompous political circle figures, working everywhere but not producing a well-known party. Although CPC members agree on the new airport site, it is perfectly justifiable to "jointly manage" Hong Kong, but all of the groups in Hong Kong that are promoting it, feel that more and more their ability is not equal to their ambition. Therefore the CPC attributes this all to the Democratic Groups "causing a stir," and for this reason clearly show their strength and cannot help but to put to death the United Democrats. Looking at the CPC's approach, it would rather that Hong Kong turn over every stone and chase off the democratic groups so that they do not communicate directly with Beijing. In any case I also am not convinced that the problems of U.S. imperialism, the reformed Soviet Union and the long-standing blood debt the

Kuomintang has with the CPC, now in the same way can "come across, smile and vanish in an instant," so why be ruthless only with the United Democrats?

If Zhou Enlai only knew of his adopted son Li Peng's clumsy tactics, he would beat his breast and stamp his feet in sorrow.

The Hong Kong political stage is brimming with perilous situations. Just think a little, if the 14 United Democrat members are reelected in the 1995 direct elections, in 1997 they will get off the train together, and we cannot estimate the shock that would arise. It is correct that the Basic Law states that the 1995 Legco members transition to become 1997 Special Administrative Region [SAR] Legislative Council members, and this must be in accordance with the prerequisite of "upholding the Basic Law." So-called "upholding the Basic Law" is in fact satisfied as long as on 1 July 1997 the members pledge loyalty to the SAR and carry out the Basic Law, the same as current members pledge loyalty to the British Queen (or the people of Hong Kong). As for the latter's pledge, when they completely and without restraint attack Hong Kong British authorities, people also do not feel they are attempting to "foment subversion." Beijing says again and again that "Hong Kong's capitalist system will not change for 50 (100) years," but it is revealing its own hypocrisy through its actions. [passage omitted]

#### **Expansion of Mainland-Funded Companies Reported**

*HK0408015392 Hong Kong TANGTAI in Chinese  
No 16, 15 Jul 92 pp 70-74*

[Article by Wan Li-sing (8001 6849 5887): "China-Funded Organizations Proliferate in Hong Kong"]

[Excerpts] Various places throughout the country have set up several thousand China-funded companies in Hong Kong and their existence and development enable Hong Kong to acquire the conditions to gradually develop into China's economic capital.

In Mainland China, many provinces, municipalities, and autonomous regions have established representative offices in big cities. Among these big cities, Beijing and Shanghai have the most representative offices. Beijing is the political capital of the whole nation and it is natural that various provinces, autonomous regions, and municipalities must establish offices there to communicate with the central authorities and foster relations. Shanghai is the economic center of the whole nation, and various provinces must also establish offices there to acquire materials, markets, and various kinds of economic services. Since reform and opening up, Hong Kong has rapidly become the third Chinese city with many offices set up by interior localities; not only has Hong Kong more such offices than Shanghai (the number of those approved officially plus a number which have yet to be approved officially), but judged

from practical function, it has probably surpassed Shanghai and become the most important economic center. [passage omitted]

#### **Exact Number Is Difficult To Obtain**

[passage omitted] According to statistics provided by the Association of China-Funded Enterprises, which was officially established last year, there are over 900 China-funded companies which have registered as members of the association. These members can be regarded as China-funded companies approved by the central authorities. In principle, companies which fail to be approved by the central authorities must return to the mainland. Of course, we know that many companies do not care whether the central authorities approve them or not and continue to carry out activities in Hong Kong. These more than 900 enterprises cannot completely reflect the actual number of China-funded companies in Hong Kong for the following reasons:

1. At present, the central authorities only have control over China-funded enterprises at provincial or ministerial levels. Companies established by county-level authorities in Hong Kong are numerous and cannot be all supervised or included in statistics by the central authorities.
2. Beijing stipulates that among the subsidiaries of China-funded companies, only those whose capital are solely owned by the mother companies or with 50 percent of shares held by mother companies, should register with Beijing. To save trouble, therefore, many China-funded companies have tried to limit their shares below the quota and thus do not need to inform Beijing. Companies of this kind are numerous and are not included in statistics by Beijing.
3. Units under provincial and ministerial levels wanting to establish companies in Hong Kong do not have to report to Beijing. They send some persons to Hong Kong, who become Hong Kong citizens, then open companies in the name of Hong Kong citizens to serve their own counties. This is a very widespread phenomenon.
4. Many companies established by some sensitive departments do not join the Association of China-Funded Enterprises to cover up their identities. For example, companies representing the Army do not become members of the association. According to an informed person, over the past three years, more than 300 such companies were established by various "sensitive systems."

Therefore, the aforementioned 900 enterprises are far less than the total number of China-funded companies.

After rectification, in one year, official membership of the Association of China-Funded Enterprises has increased to more than 1,500, and this indicates that the trend in which interior units send persons to Hong Kong to establish offices is indeed hard to block.

### The Role of China-Funded Companies

At present, various China-funded companies in Hong Kong generally play the following roles.

First, they serve as the Hong Kong offices of various provinces, autonomous regions, and municipalities. Many China-funded companies are in fact representative offices of various provinces, municipalities, and autonomous regions on the mainland (for example, commerce departments), and they have the duty of handling commerce involving foreigners, fund-raising, and information and reception work for their provinces, municipalities, and autonomous regions. They often have certain administrative ranks. At present, most representative companies of various provinces, municipalities, and autonomous regions belong to bureau-level units (as indicated by table 1). Because these companies are actually administrative departments, this makes it inconvenient to do business. Therefore, they give birth to many son companies and grandson companies, which do concrete business and play a commercial role. Generally, a medium-sized provincial-level company will give birth to 20 to 30 son companies or grandson companies, whereas "offsprings and descendants" of larger provincial-level or municipal-level companies, such as Guangdong Enterprise (Group) Company Limited and Shanghai Industrial Company Limited are far more than that number.

Second, they serve as the marketing organs of various business departments in the central authorities. The traditional four major companies (Bank of China Group, China Resources Group, China Merchants Steam Navigation Group, and China Travel Services), and various business departments established since reform and opening up (such as the Ministry of Energy Resources, the Metallurgical Industry Ministry, and the Ministry of Materials and Equipment) have opened companies in Hong Kong with an emphasis on business promotion (as indicated by some companies in table 2).

Third, they serve as the Hong Kong offices for various sensitive systems. Along with Hong Kong entering the second half of the transition period, China has to begin work in preparation for the takeover of Hong Kong's sovereignty, and the number of "companies" in this area has increased continuously. According to an informed person, after the 4 June incident, some persons in Beijing called Hong Kong a "subversive base" which must be dealt with, and thus, more sensitive organs have emerged in the form of commercial companies.

### Hong Kong Offices Established by Chinese Provinces, Municipalities, and Autonomous Regions

Province, Municipality, Autonomous Region	Office in Hong Kong
Beijing	Jingtai Company Limited
Tianjin	Jinlian Company Limited
Shanghai	Shanghai Industrial Company Limited

Heilongjiang	Hong Kong Bingang Consultation and Development Company Limited
Jilin	Zhongji Compnay
Liaoning	Zhongliao Company Limited
Inner Mongolia	Shan Development Company Limited
Henan	Yugang Enterprise Company Limited
Shandong	Hualu Company Limited
Shanxi	Hengshan Trading Company
Shaanxi	Lishan Company Limited
Gansu	Longgang Company Limited
Sichuan	Ling Company
Hubei	Yifeng Industrial Company Limited
Hunan	Sanxiang Company Limited
Jiangxi	Huagan Company Limited
Jiangsu	Zhongshan Company Limited
Zhejiang	Fuchun Company Limited
Anhui	Jianghai International Trading Company Limited
Fujian	Huamin (Group) Company Limited
Guangdong	Guangdong Enterprise (Group) Company Limited
Guangxi	Guijiang Enterprise Company Limited
Hainan	Huahai Company Limited
Yunnan	Haihu Trading Company Limited
Guizhou	Guida Company Limited
Ningxia	Jiachuan Development Company Limited
Qinghai	Yungang Company Limited
Xinjiang	Xinjiang Development Company Limited
Tibet	Tibet Everest Trade and Tourism Company Limited

### Business of China-Funded Companies

Most China-funded companies do not have good business, and this is a commonly recognized fact. There are several reasons.

1. The degree of enthusiasm for reform and opening up among persons in charge of provinces and municipalities.

Many analyses by informed persons hold that this is the most crucial factor. Many persons cite Guangdong Enterprise (Group) Company Limited and Huamin (Group) Company Limited as examples, saying that both companies enjoy "special policies and flexible measures," but the scale of the former is more than 10 times of the latter. Apart from the fact that Guangdong Province has a strong point in being a neighbor of Hong Kong and Macao, the most important reason is because Guangdong's leaders are wholeheartedly devoted to reform and opening up and are fearless and courageous as they advance; therefore, in 10 years time they have surpassed Fujian.

2. The conservative thoughts of doing nothing among personnel sent abroad.

Because a job stationed in Hong Kong is absolutely an "excellent job and a rich vacancy" to cadres on the

mainland, when they have come to Hong Kong they often have a strong "position protection sense," which means they do not seek good performances in Hong Kong, but seek not to make mistakes. The system in China also encourages this kind of sense: Do more and you do not have benefits, do more and you have more chances to make mistakes. At the same time, because it is a "rich vacancy," many units see it as a "pre-retirement benefit" for outgoing old cadres, therefore, the post changes person every two or three years and the person who has come to Hong Kong does not aspire to do great things.

Most China-funded companies have not had good business development and this is attributable to some objective conditions. Among the most important is that provinces and municipalities do not have many good things to export. Within China's exports, "first-category products," which are comparatively important, are all taken by the state's foreign trade departments and only "second- and third-category products" are left behind for provinces to handle. These products are often so-called "high-loss products" that have high costs in earning foreign exchange through exporting. In addition, many organs have been established in Hong Kong by interior provinces and municipalities for a short time, therefore, they do not have adequate business ties and smooth channels and their business standards are low, therefore, they do not do good business.

### 3. Restricted by objective conditions.

#### Organs Established in Hong Kong by Several Ministries and Commissions of the State Council (This list only includes companies which are elected to the board of directors of the Association of China-Funded Enterprises.)

Ministry, Commission, Office	Representative Office
Foreign Ministry	Asia Trade Company Limited
Commission of Science, Technology and Industry for National Defense	Huiyi Company Limited
State Science and International Technology Commission	China New-Tech Development Company Limited
Ministry of Foreign Economic Relations and Trade	China Resources (Holdings) Company Limited
	Kang Li Investment Company Limited
China State Shipbuilding Corporation	Hualian Shipbuilding Company Limited
Ministry of Light Industry	Suihua Enterprise Development Company Limited
	Tianli International Trade Company Limited
Ministry of Energy Resources	Gangyuan Water Conservancy and Hydraulic Power Company Limited
	Huanneng Trading Company Limited
	Yuanneng Industrial Company Limited
Ministry of Communications	China Merchants Steam Navigation (Holdings) Company Limited
Ministry of Railways	China Railway Service (Hong Kong) Company Limited
	Zhongtu Engineering (Hong Kong) Company Limited
Ministry of Machine-Building and Electronics Industry	Huadian Company Limited
	Huashengchang Machinery Enterprise Company Limited
Office of Overseas Chinese Affairs	Hong Kong China Travel Service (Holdings) Company Limited
Bank of China	Bank of China Hong Kong and Macao Administrative Office
Chinese People's Insurance Company	China Insurance Hong Kong and Macao Administrative Office
Ministry of Construction Engineering	China Overseas Construction Company Limited
Ministry of Metallurgical Industry	China Metallurgy Hong Kong Company Limited
Ministry of Aeronautics and Astronautics Industry	Weike Company Limited
Academic Sinica	Keheng Industrial Company Limited
China National Offshore Oil Corporation	China Offshore Oil Service (Hong Kong) Company Limited
State Administration of Building Materials Industry	Zhongcheng Building Materials International Company Limited
Civil Aviation Administration of China	Air China
National Tourism Administration	China International Travel Service Company Limited
State Council	China International Trust and Investment Corporation Hong Kong (Holdings) Limited
State Council	Everbright Industrial Corporation
[passage omitted]	

**Re-Exports Rise 25.3 Percent in July**

*HK2808051492 Hong Kong SOUTH CHINA  
MORNING POST (BUSINESS POST) in English  
28 Aug 92 p 1*

[By Lucinda Horne]

[Text] Continued strong growth in re-exports brought their total value to \$60.78 billion last month, 25.3 percent more than in July last year.

Even so, it was the lowest such rise since January, indicating the phenomenal pace of re-export growth since the second half of last year.

Domestic exports were 1 percent higher than in July last year at \$21.38 billion, while imports were up 23 percent at \$84.96 billion, according to provisional figures from the Census and Statistics Department.

Analysts said the slightly lower increase in re-exports last month did not signal the beginning of the end of Hong Kong's re-export boom, which many expected to continue until at least the end of the year.

Mr Ben Kwong Manbun, of G.K. Goh Securities, said re-export growth rates tended to fluctuate from month to month and it was wrong to read too much into last month's figures alone.

The overall trend was for continued solid growth in re-exports underpinned by strong domestic demand in China. But if the threatened U.S. trade sanctions against China were imposed, Hong Kong re-exports would be affected, he said.

The market access dispute between China and the U.S. could also lead to an even sharper rise in re-exports this month, he added, as exporters moved to ship goods to the U.S. early on fears that the threatened punitive tariffs would be imposed.

Mr Benjamin Chan Sausan, senior economist at the Bank of East Asia, said the banking sector was seeing continued increases in trade financing, indicating that the positive trend for re-exports would continue.

Smith New Court analyst Enzo von Pfeil said the estimated 17.5 percent increase in retained imports, an informal barometer of business confidence, was an encouraging sign.

He said it was likely that the bulk of the imports was capital goods, which boded well for the manufacturing sector.

Retained imports appeared to move an annual cycles. "We would suggest 1992 is going to be an up-cycle year for retained imports," Mr Von Pfeil said.

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